Annual Report 2012

بـنـك بـوبـيـان
Boubyan Bank
Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

"Verily, Allah is the All-Provider, Possessor of Power, The Mighty"

(Adh-Dhariyat 51;58)

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H.H. Sheikh
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Crown Prince

H.H. Sheikh
Jaber Mubarak Al-Hamad Al-Sabah
Prime Minister

Board of Directors

Mr. Adel Abdul Wahab Al-Majed
Chairman & Managing Director

Mr. Mahmoud Y. Al-Fulaij
Vice Chairman

Mr. Ahmad K. Al-Humaidhi
Board Member

Mr. Ahmed Yousef Al-Saqer
Board Member

Mr. Hazim Ali Al-Mutairi
Board Member

Mr. Abdulaziz Abdullah Al-Shaya
Board Member

Mr. Farid Soud Al-Fowzan
Board Member

Mr. Waleed Mishari Al-Hamad
Board Member

Mr. Yousef Abdullah Al-Qatami
Board Member

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Ajeel Jassim Al-Nashmi	Chairman Board
Sheikh Dr. Esame Khalaf Al-Enezi	Member/Reporter
Sheikh Dr. Mohammed Al-Fuzaie	Member
Sheikh Dr. Ali Al-Rashid	Member

Executive Management

Adel Abdul Wahab Al-Majed	Chairman & Managing Director
Abdulla Al-Najran Al-Tuwaijri	Deputy Chief Executive Officer - Consumer Banking and Banking Operations Group
Abdul-Salam Mohammed Al-Saleh	Deputy Chief Executive Officer - Corporate Banking & Treasury Group, Financial Control and Legal Affairs
Adel Abdullah Al-Hammad	General Manager - Human Resources Group
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Talal Abdullah Al-Wegayyan	General Manager - Corporate Banking Group
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Mohamed Ibrahim Ismail	Deputy General Manager - Financial Control Group
Fahad Ahmad Al-Fouzan	Deputy General Manager - Banking Operation Group
Mukkulam Jamal Jaffar	Deputy General Manager - Treasury Services

Chairman's Message

Valued Shareholders,

For myself and on behalf of Board members and executive team, I would like to extend to you deepest thanks for the support you provided to us throughout the past period, and I find pleasure in presenting to you the Annual Report for year 2012, which includes all figures and financial statements highlighting the achievements crowned, thanks be to Allah, by the realization of profits despite the hard operational environment encompassing the different economic sectors.

Successful Strategy

By the end of year 2012, we have completed the first 3 years of our Five-Year Strategy (2010-2014), which certainly realized many of its objectives, as mainly represented in returning to profitability starting from year 2012, and even returning to profit distribution to our esteemed shareholders, with the Help of Allah.

A set of key factors, mainly represented in the NBK's entry as a major shareholder in Boubyan Bank, have contributed to the realization of many of our strategic objectives, key among which is returning to the core banking activities, expansion in the local market through our retail and corporate products and services, and provision of the same in a different and distinguished manner; thus growing our market share and boosting our competiveness.

As far as local geographical expansion is concerned, we would say that our goals set starting from year 2010, which is reaching 30 branches by the end of year 2014 has become within reach, as the number has already recorded 22 branches by the end of year 2012, and in view of planning to open new 6 to 7 ones in year 2013, all in residential areas with high population, in order to always be closer to our customers, which means that by the end of year 2014, we will have exceeded our preset goals.

And in order to maintain excellence, the Bank offered a variety of products and services targeting the different sections of society, which really represented a distinguished package some of which were introduced for the first time in Kuwait and others are still solely provided by our Bank. In addition, we adopted a distinguished approach in rewarding our customers by changing the concepts of promotion campaigns, placing the slogan "With Boubyan.. All Are Winners" instead of the common draws on prizes.

As part of its strategy, Boubyan Bank continued to focus on products and services targeting affluent customers with high net worth (platinum banking); as we noticed, through our marketing studies about the local market, that there is a dire need to provide a package of these special, elite services that cater to this section of customers looking for banking services fulfilling their needs and matching their business and lifestyle; therefore, we launched platinum banking for them.

Meanwhile, the Bank continued to develop its services provided to private banking customers by offering them more of the privacy they always seek, in addition to quick execution of all their transactions, and fulfilling all their financial and investment needs in a highly professional manner.

On the other hand, based on figures and statistics, we have an optimistic outlook, as we managed during a short period to uplift our market share to decent ratios, considering the circumstances we faced and the ardent competition in the Kuwaiti market, especially Islamic financial services; as we managed, thanks be to Allah, to boost our market share to 4.7% by the end of year 2012, compared to 2.3% in year 2009, and raise personal finance to 5.7% now, compared to 1.2% during the same period.

Our strategy focused on mid- and large-size companies to render Boubyan the bank of choice for companies, as our Corporate Banking Group maintains strong relationships with many national companies operating in productive economic sectors and provide them the best banking service.

Despite the hard economic circumstances, Boubyan Bank managed to realized excellent growth rates in the credit portfolio to 23% during year 2012, which is one of the highest growth rates in the local market, by soliciting many productive companies known for economic and financial solvency, whilst adhering to the highest standards of creditworthiness and risk study and diversification.

During 2012, Corporate Banking Group arranged and managed syndicated finance transactions with local and international banks for various companies, as for instance, the Bank managed and participated in a finance transaction for Mobile Telecommunication Company – Kuwait "Zain" valuing USD 175 million.

Our Human Resources

Since the early beginning of implementing the new strategy stating from 2010, we have taken into account that no success can be attained without relying on our human resources and our ability to solicit distinguished cadre in the local market, and develop the capabilities of all our staff, while focusing on Kuwaiti youth, as we were able to raise national labor ratio to above 64%, which is one of the highest ratios in the private sector in general and banks in specific.

To this end, year 2012 witnessed the launch of ITQAN Academy, which is the first of its kind amongst local and regional banks, and represents an advanced and innovative model for training human resources and developing young Kuwaiti leaders in cooperation with Gulf University for Science and Technology (GUST), which acts as the "exclusive academic partner" for Boubyan Bank in Kuwait.

The Academy represents a qualitative leap in the area of professional training and development, not only on the level of local banks, but also regional banks, as it shifts training and development concepts from the traditional approach to a more advanced one as seen in granting the renowned academic certificates (bachelor's and master's degrees) in cooperation with the most prestigious American and international universities.

Our Social Responsibility

Social responsibility and social service are considered the corner stone of the Bank's dealings with all sections of society, in order to contribute to development and building of a society that is able to confront all regional and international variables. Accordingly, Boubyan Bank had a pioneer role by launching many social responsibility initiatives and supporting various activities and events targeting the different sections of society, especially people with special needs and youth; and maybe the best example here is "The Big Tree Society" initiative organized for Kuwait schools by the Bank in cooperation with UNESCO.

International Awards and Certificates

Boubyan Bank continued to receive regional and international appreciation by winning many awards and certificates of appreciation, mainly including: Best Islamic Bank in Kuwait for Customer Service for the second year in a row from "Service Hero", Best Islamic Bank in Elite Credit Card Services from "The Banker Middle East Magazine", Best Islamic Bank in Kuwait from "World Finance", Fastest Growing Bank in Kuwait from "The Banker Middle East Magazine" and Best Islamic Bank in Kuwait from "Arabian Business".

Chairman's Message

NBK Family

We all know that the acquisition of the National Bank of Kuwait, with all its long-established expertise and well-known history, of a significant stake in the Bank's shares in August 2009 greatly contributed to the achievements made throughout the past period, and it is no wonder due to the long experiences it possesses, which played a major role in setting the Bank's new strategy, the new launch and expansion in the Kuwaiti market.

Year 2012 witnessed a key change represented in the increase of NBK's ownership in Boubyan to 58%, and thus we have become part of the NBK family, a fact that will be more and more reflected on our performance during the coming period, while stressing the complete separation between us on the operational level.

Optimistic Outlook- 2020 Strategy

We are optimistic that the future has more to bring to Islamic banks and financial institutions, whether in Kuwait or in the region, as all indicators denote the increasing demand on Islamic banking and financial products and services, which has become noticeably popular, even among non-Muslims, for the matter has to do with Shari'ah from one side, but on the other side, it also has to do with the services, products and banking solutions provided to customers which keep pace with the advancement in all areas of life.

According to our studies and conclusions, the new strategy for the period from 2015 to 2020, namely 2020 Strategy, is based on expansion in the external markets after we will have finished our current strategy which will enable us to strengthen our position in the local market, and give us the opportunity to set out for abroad, as whatever increased investment opportunities we may find inside Kuwait, they will be always limited when compared to our aspirations, the fact that made us consider expanding our horizons outside of Kuwait in 2020 Strategy, God Willing.

To Conclude..

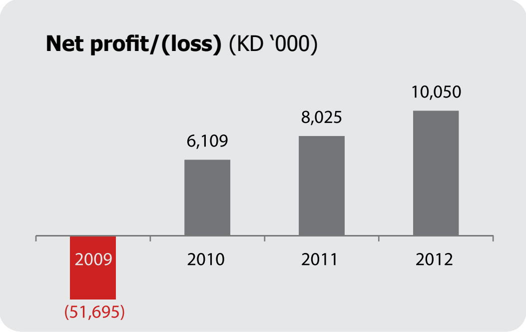
On this occasion, for myself and on behalf of all Boubyan Bank's Board and Executive Management members, I would like to express deepest thanks, appreciation and gratitude to H.H., the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah Protect him as well as to H.H., Crown Prince, Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness Prime Minister, Sheikh Jaber Mubarak Al-Hamad Al-Sabah, may Allah Protect them all, supplicating to Allah, the Almighty, to guide them to the right path and grant them success towards the development and glory of this nation.

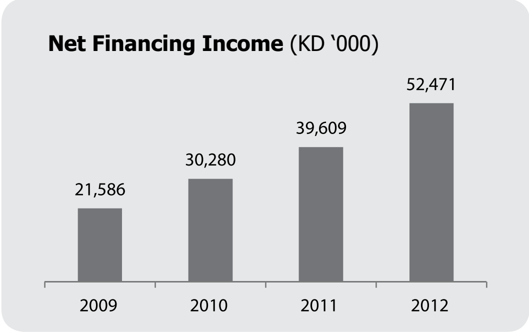
Moreover, I would like to express deepest thanks to the executives of the Central Bank of Kuwait, headed by H.E., the Governor, Dr. Mohammed Al-Hashel, who saved no effort to take the actions deemed appropriate to serve the best interests of the Kuwaiti economy, and always support the different sectors, basically the banking sector. I would like also to express deepest thanks to all the Bank's esteemed shareholders and customers who have always been the key element behind its support and who enabled it to confront the challenges, as well as all members of the Bank's Shari'ah and Fatwa Supervisory Board headed by Sheikh Ajeel Jassem Al-Nashmi, for their great efforts representing the guidelines for all the Bank's activities, services and dealings.

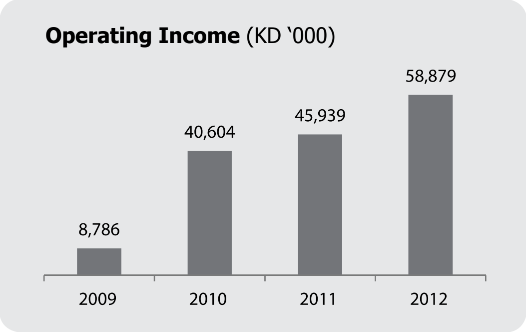
Finally, I would like to extend deepest appreciation to all Boubyan Bank's executives and employees who work in one-team spirit to realize more success for our Bank, and express the hope of us all that the coming period will be a new stage driving it towards more giving, achievements and realization of objectives that place it among leading banks.
May Allah Grant us success!

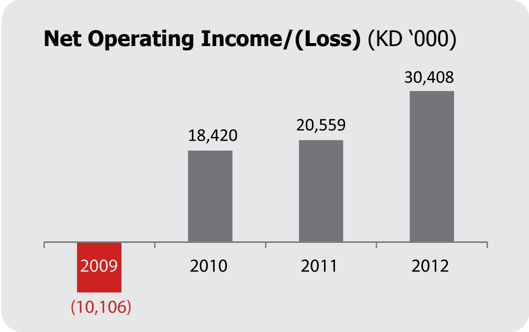
Adel Abdul-Wahab Al-Majed
Chairman & Managing Director

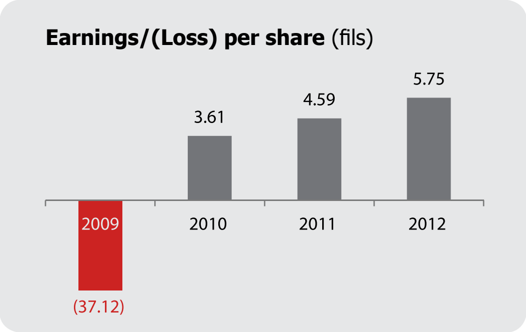
Financial highlights 2009 - 2012

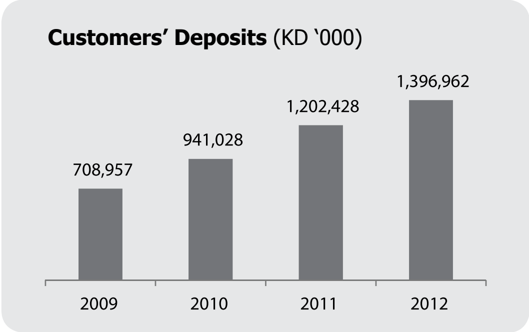


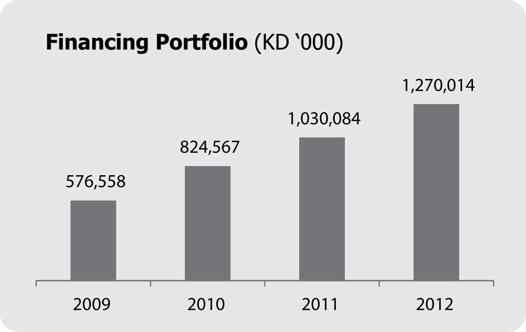


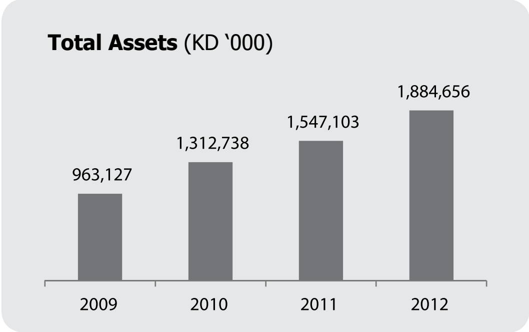


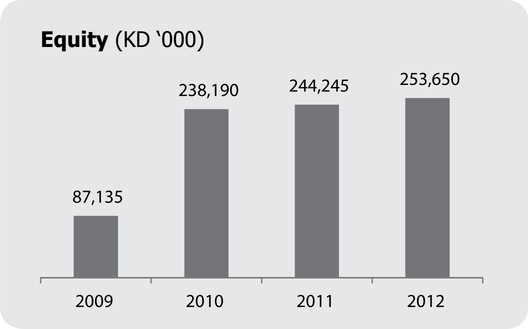




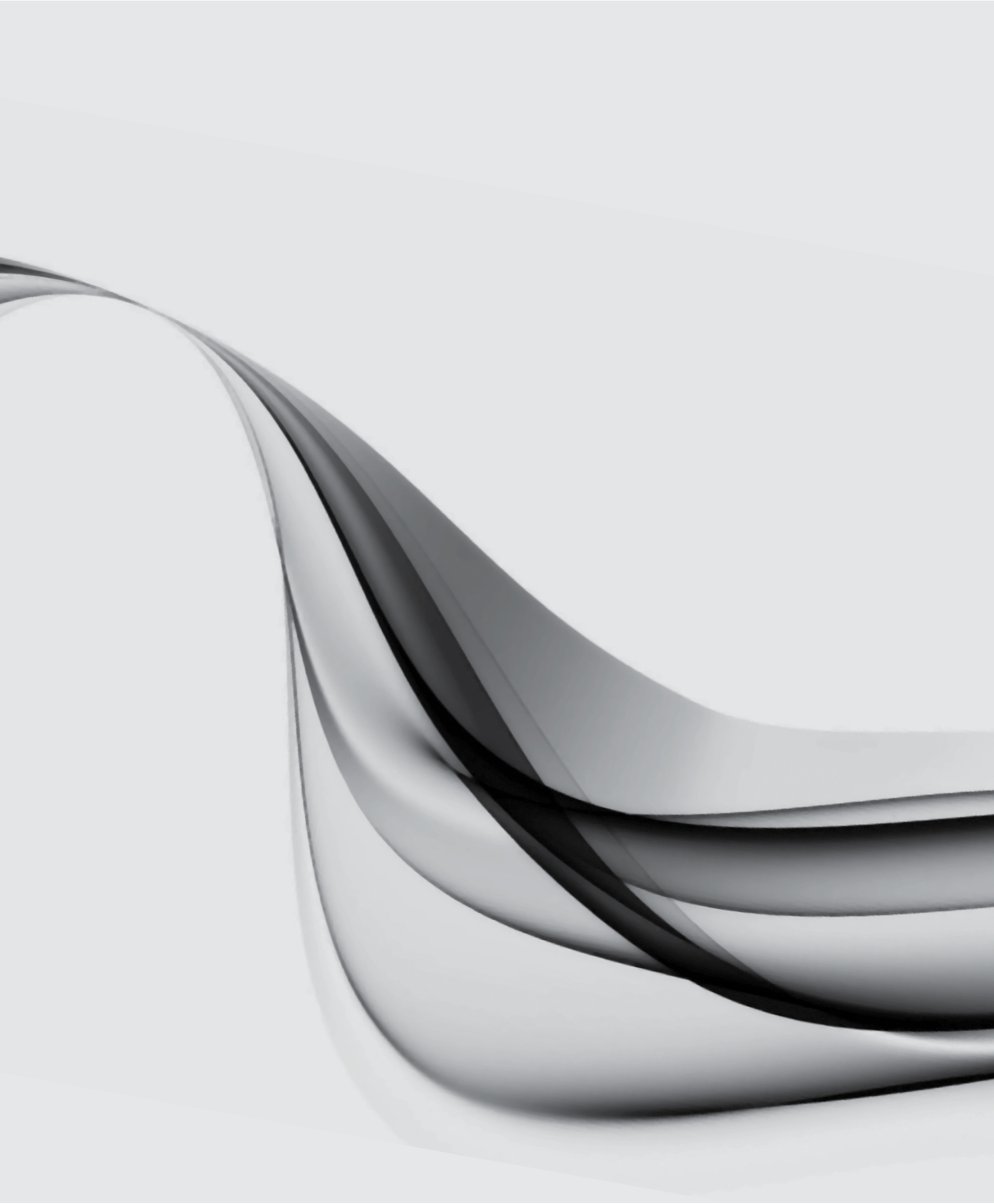








Corporate Governance Report



Corporate Governance Report

Corporate Governance Statement

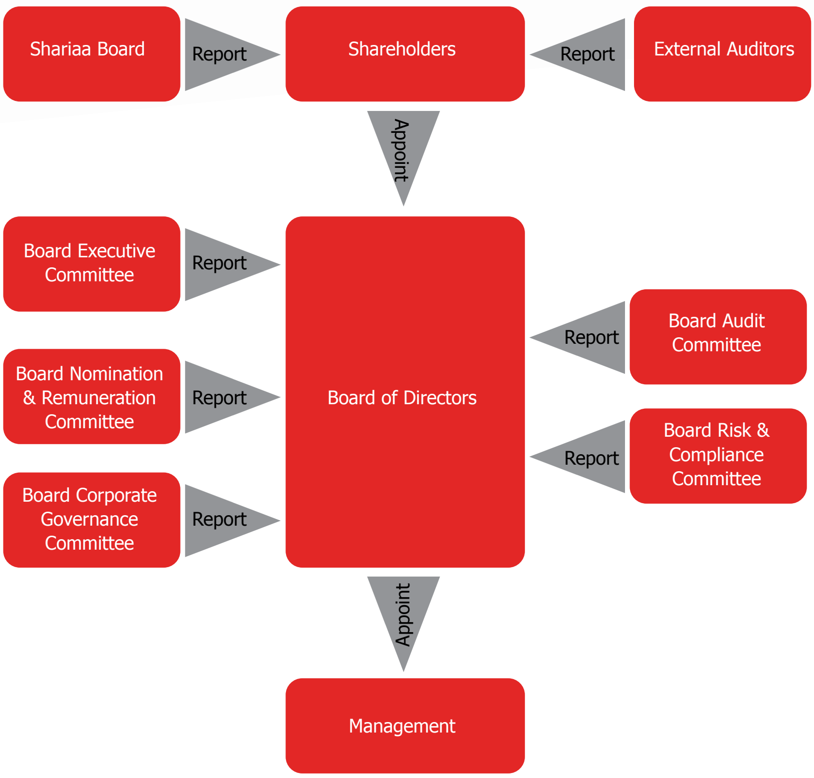
In line with our continuous endeavors for adopting professional practices in management and control under the prime objective of delivering the best to all our stakeholders, we are committed at the Bank, starting from the "Top of Pyramid", to adopt and implement a well-developed and structured Corporate Governance system with high standards and professional practices.

Accordingly, we have initiated during year 2012 a comprehensive review of the Corporate Governance structure to enhance respective practices and ensure meeting the Corporate Governance requirements issued by the Central Bank of Kuwait. During 2012, milestones were achieved, including but not limited to:

- Upgrading the Corporate Governance structure and reviewing related policies and practices
- Completing all key Board Committees in line with the Corporate Governance best practices
- Establishing a Corporate Governance Unit for managing the Corporate Governance function
- Updating the Corporate Governance manual

The upgraded Corporate Governance structure is targeted to be in full implementation by mid of year 2013.

Corporate Governance Structure



Board of Directors

Adel Abdul Wahab Al-Majed
Chairman & Managing Director
Appointed to the Board: 2010

Skills and Experience:
Mr. Al Majed joined Boubyan Bank in August 2009 with more than 30 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al Majed graduated from the University of Alexandria with a bachelor degree in accounting and has attended various management training programs at various universities, including programs at Harvard, Wharton and Stanford.

Current appointments include:
- Board member - Visa APCEMEA – Senior Client Council
- Board member - Bank London & Middle East (UK)
- Board member - Hayat Investment Company (Kuwait)
- Chairman United Capital bank (Sudan)

Mahmoud Y. Al-Fulaij
Vice Chairman
Appointed to the Board: 2010

Skills and experience:
Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 30 years of experience; he manages two trading companies in Kuwait. He graduated with a bachelor degree in Business Administration from the United States of America in 1980.

Ahmad K. Al-Humaidhi
Appointed to the Board: 2012

Skills and Experience:
Mr. Al-Humaidhi has a well-diversified experience in banking, investment and consultancy. He is the General Manager of a consultancy company in Kuwait.
Mr. Al-Humaidhi obtained his bachelor's degree in IT and Finance from Northeastern University in the United States of America and his MBA from London Business School.

Current appointments include:
- Vice Chairman – Bayan Holding Company, KSCC (Kuwait)
- Board member – Combined Group Contracting Company, KSCC (Kuwait)

Ahmed Yousef Al-Saqer
Appointed to the Board: 2011

Skills and Experience:
Mr. Al-Saqer is a well-known businessman in Kuwait with more than 26 years of experience in managing trading companies. He is currently a managing partner of a well-known food trading company in Kuwait. Mr. Al-Saqer graduated from the United States of America with a bachelor degree in Economics.

Current appointments include:
- Board member – Al-Shall Investment Company, KSCC (Kuwait)

Hazim Ali Al-Mutairi
Appointed to the Board: 2010

Skills and Experience:
Mr. Al-Mutairi has a diversified experience in the fields of financing, investment, and treasury. He is CEO of a holding company in Kuwait. He graduated from the United States of America with a bachelor's degree in Finance.

Current appointments include:
- Board member – Idafa Holding Company, KSCC (Kuwait)

Abdulaziz Abdullah Al-Shaya
Appointed to the Board: 2009

Skills and Experience:
Mr. Al-Shaya is a well-known businessman with more than 35 years of experience; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

Current appointments include:
- Vice Chairman – Awtad Real Estate Company, KSCC (Kuwait)
- Vice Chairman – Orient Investment Company, KSCC (Kuwait)
- Vice Chairman – Enmaa Real Estate Company (Oman)

Farid Soud Al-Fowzan
Appointed to the Board: 2009

Skills and Experience:
Mr. Al-Fowzan possesses more than 25 year of experience in various sectors including trading, real estate, and energy. He manages a holding company in Kuwait. Mr. Al-Fowzan obtained his bachelor's degree in Finance and Banking from Kuwait University.

Current appointments include:
- Vice Chairman – Gulf Group Holding Company, KSCC (Kuwait)
- Board member – SAFCORP Holding Company, KSCC (Kuwait)
- Board member – Innovest Company (Bahrain)
- Board member – Gulf Real Estate Company (Saudi Arabia)

Waleed Mishari Al-Hamad
Appointed to the Board: 2010

Skills and Experience:
Mr. Al-Hamad has more than 15 years of experience, including 10 years in banking and investment sectors; he is CEO of a holding company in Kuwait. Mr. Al-Hamad holds a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.

Current appointments include:
- Managing Director – Helvetia Arab Holding Co. (Kuwait)

Yousef Abdullah Al-Qatami
Appointed to the Board: 2009

Skills and Experience:
Mr. Al-Qatami is a businessman with experience in investment sector; he is General Manager of one of the well-known trading company in Kuwait. He graduated from the United States of America with a bachelor's degree in Business Administration.

On 20 March 2012, Mr. Ibrahim Ali Al-Qadhi resigned from the Board as a Chairman and Director; accordingly, Mr. Adel Abdul Wahab Al-Majed was appointed as Chairman and Managing Director, and Mr. Ahmad K. Al-Humaidhi joined the Bank as a Board Member.

Executive Management

Adel Abdul Wahab Al-Majed
Chairman & Managing Director

Mr. Al Majed joined Boubyan Bank in August 2009 with more than 30 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al Majed graduated from the University of Alexandria with a bachelor's degree in accounting and has attended various management training programs at various universities, including programs at Harvard, Wharton and Stanford.

Abdulla Al-Najran Al-Tuwaijri
Deputy Chief Executive Officer

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 with more than 22 years of retail banking experience at NBK. During his time with NBK, he held different leadership roles in retail banking both in Kuwait and in London and his last position was the Deputy General Manager - Consumer Banking Group. Mr. Al-Tuwaijri got his bachelor's degree in Finance from Kuwait University, and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

Abdul-Salam Mohammed Al-Saleh
Deputy Chief Executive Officer

Mr. Al-Saleh joined Boubyan Bank in October 2012 with more than 25 years of banking experience. He worked for NBK for 18 years, where he gained experience in Financial Control and Corporate Banking; and his last position at NBK was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked for more than 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh got his bachelor's degree in Finance from Kuwait University and attended various management and leadership training programs over the course of his career.

Waleed Khalid Al-Yaqout
General Manager - Administration Group

Mr. Al-Yaqout has joined Boubyan from NBK with more than has over 30 years of banking experience. His last position at NBK was General Manager – Administration and Human Resources Group. Mr. Al-Yaqout graduated with a Bachelor's degree in Business Administration and Marketing from the University of Ashland, USA, and participated in various executive management programs at the universities of Harvard, Wharton, Stanford and Columbia.

Adel Abdullah Al Hammad
General Manager - Human Resources Group

Mr. Al-Hammad joined Boubyan Bank in December 2006 with more than 29 years of banking experience in Human Resources Management, out of which 23 years were at NBK, where he held several key positions, the last of which was Head of Human Resources. Mr. Al-Hammad graduated with a bachelor's degree in Economics from Kuwait University, and attended several executive training programs at Harvard University and Stanford University.

Dr. Waleed Eisa Al-Hasawi
General Manager - Information Technology Group

Dr. Al-Hasawi joined Boubyan Bank in February 2011 with more than 35 years of experience. He had held many positions in different institutions, the last of which was the Assistant General Manager for the IT Sector at Kuwait Finance House. Dr. Al-Hasawi studied at Worcester Polytechnic Institute in the United States and continued his master's study at Lehigh University and got his PhD. from Loughborough University of Technology in UK, all in the area of Electronics and Computer Engineering.

Talal Abdullah Al-Wegayyan
General Manager – Corporate Banking Group

Mr. Al-Wegayyan joined Boubyan Bank in 2005 and he has about thirty years of experience in the Banking sector. He worked between the years 1983 & 2004 at Commercial Bank of Kuwait and Gulf Bank, where he progressed in several managerial positions within the Corporate Finance; he holds bachelor's degree in Business Management from USA.

Leslie James Rice
General Manager - Risk Management

Mr. Rice joined Boubyan Bank in 2012 and has over 30 years banking experience, where he started his banking career with Grindlays Bank in London. Before joining Boubyan, Mr. Rice was Group Chief Risk and Compliance Officer at SHUAA Capital in UAE. His regional experience included senior positions with National Bank of Dubai and Riyad Bank. He is an Economics graduate and a Fellow of the Chartered Institute of Management Accountants.

Abdul Rahman Hamza Mansour
General Manager - Internal Audit

Mr. Hamza joined the Bank in year 2006 and has more than 30 years of professional experience with financial institutions. Prior to joining Boubyan, he held a position as Audit Manager at Kuwait Investment Authority, and worked before that at Al-Ahli Bank of Kuwait. Mr. Hamza holds a bachelor's degree in Accounting, and he is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA).

Corporate Governance Report

Mohamed Ibrahim Ismail
Deputy General Manager - Financial Control Group

Mr. Ismail joined Boubyan Bank in 2005 and has 16 years of banking and financial services experience. He started his career as an external auditor with Deloitte & Touche and then Ernst & Young. In the course of his carrier, he worked at Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA), and holds MBA in Finance from Manchester Business School.

Fahad Ahmad Al-Fowzan
Deputy General Manager - Banking Operations Group

Mr. Al-Fowzan joined Boubyan Bank during 2012, after 27 years of experience in both Conventional and Islamic Banking. Before joining Boubyan, he held a position of Deputy General Manager - Operations Group at NBK. Mr. Fahad started his career working in Kuwait International Bank for 24 years of which, 19 years in Corporate Banking and 5 years in Operations. Mr. Fahad graduated with bachelor's degree in Accounting from Kuwait University.

Mukkulam Jamal Jaffar
Deputy General Manager - Treasury Services

Mr. Jaffar joined Boubyan Bank in year 2005 and he has over 33 years of experience in the Banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position of the Assistant Treasurer at Burgan Bank. Mr. Jaffar holds a master's degree in Physics and a diploma in Bank Management.

Board of Directors

At the "Top of Pyramid", Boubyan Bank is headed by a Board of Directors (the 'Board'), which consists of nine members elected by the shareholders under a main mandate to deliver sustainable value to all stakeholders, including shareholders, depositors, employees, and society.

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter; where its scope of work includes but is not limited to:

- Setting the strategies and risk appetite for the Bank.
- Approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives.
- Ensuring efficient application of the resources for the achievement of the objectives.

The Board of Directors has delegated to the Executive Management, which is headed by the Chairman and Management Director, the implementation of the adopted strategy and business plan.

Board Structure

Boubyan Bank has a unitary Board. The authority of each Director is exercised in Board meetings where the Board acts collectively.

Within the Board, only the Chairman and Managing Director is entrusted with executive roles. All other Board members are Non-executive Directors , who are not treated as employees and do not participate in the day-to-day business management and activities of Boubyan. They bring independent perspective, with constructive challenges to develop proposals on strategy, scrutinize the performance of management in meeting agreed goals and objectives, and monitor the risk profile and the reporting of performance. The Non-executive Directors bring experience from various industries and business sectors.

Authorities of the Board

The Board is responsible for managing the business of Boubyan Bank and, in doing so, may exercise its full authorities, subject to any relevant laws and regulations and to the Articles of Association and by-laws of the Bank. In particular, the Board may exercise the authority to obtain financing and to mortgage or charge all or any part of the undertaking, property or assets of Boubyan Bank and may also exercise any of the authorities delegated to it by the shareholders in General Assembly.

On the other side, the Board is able to assign to Directors, Executives and/or Committees any of its powers, authorities and discretions (including the power to sub-delegate); accordingly, the Board delegated the management of day-to-day activities to the Executive Management but retained certain authorities among of which:

1. The approval of critical matters including operating plans, risk appetite and performance targets, procedures for monitoring and controlling operations.
2. The authority or the delegation of authority to approve credit and market risk limits, acquisitions, disposals, investments, capital expenditure or realization or creation of a new venture.
3. Appointment of Executive Management team.
4. Any changes on the accounting policies, which would have material impact on the financial position.

Board Meetings

Eight Board meetings and a one-day strategy meeting were held in year 2012. The table below shows attendance of each Director of the Board meetings held during 2012:

Attendance record:

Number of Board meetings held	**8**
Adel Abdul Wahab Al-Majed	8
Ibrahim Ali Al-Qadhi	2
Mahmoud Y. Al-Fulaij	8
Ahmad K. Al-Humaidhi	6
Ahmed Yousef Al-Saqer	5
Hazim Ali Al-Mutairi	5
Abdulaziz Abdullah Al-Shaya	6
Farid Soud Al-Fowzan	6
Waleed Mishari Al-Hamad	5
Yousef Abdullah Al-Qatami	6

* Resigned in March 2012, after the second meeting
** Joined in March 2012, after the second meeting

Independence of Board of Directors

As the majority of the Board members are Non-executive Directors, and are being elected rather than appointed by the shareholders, the decisions of the Board are not dominated by certain individuals or groups. Further, the size of the Board given the complexity of the business activities of the Bank is appropriate to support independency, where there is adequate number of Non-Executive Directors in the Board Committees.

Further, Non-executive Directors are independent in post and judgment as supported by the Board "Code of Conduct" and "Conflict of Interest" policies. The Board has ensured that any potential incidence of conflict of interest that may jeopardize the independency and objectivity of any Board Directors were managed and cleared as per the adopted policies. Hence, the Bank confirms the independency of its Board Directors on their judgments and decisions.

Reporting of Information

The Board regularly reviews the progress financial and management reports compared to financial budgets and business plans. Also, the Board Committees report to the Board on a quarterly basis on their activities.

The Board has ensured the receipt of reliable, relevant, adequate, useful and timely information that enables them taking appropriate decisions; such information included:

- The agenda and supporting documents of Board and Committee meetings
- Regular reports and presentations on strategy and developments in the businesses.
- Regular reports on the Group's risk appetite profile, top and emerging risks, risk management, credit exposures and the Bank's finance portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

Further, all Board Directors have full access to all relevant information; they are also free to contact management and employees at all levels.

Board Committees

The Board has established all the key Board Committees consisting of Executive and Non-executive Directors and in line with the Corporate Governance requirements. The Chairperson of each Board Committee regularly reports to the Board on the performance of activities of the respective Board Committee. The Key Board Committees are summarized as follows:

Board of Directors

Board Executive Committee	Board Nomination & Remuneration Committee	Board Corporate Governance Committee	Board Audit Committee	Board Risk & Compliance Committee
Includes Executive and Non-executive Directors and is responsible for Credit and Investment decisions under the limits delegated by the Board.	All members are Non-executive Directors and is responsible for: • Setting the principles, and governance framework of the Group's remuneration policy and remuneration of Executive Management. • Leading the process for appointing Directors and for assessing the nominees for Board approval.	Includes Executive and Non-executive Directors and is responsible for ensuring that the Bank adopts and implements high corporate governance standards and periodically review the effectiveness and efficiency of governance practices and procedures.	All members are Non-executive Directors and is responsible for: • Ensuring effectiveness and efficiency of the internal and external audit functions. • Advising the Board on matters related to financial reporting.	All members are Non-executive Directors and is responsible for: • Ensuring effectiveness and efficiency of the risk and compliance functions. • Checking performance in line with the risk appetite. • Advising the Board on matters related to risk compliance, and anti-money laundry.

Board Committees' Meetings

Number of meetings held	Executive	Nomination & Remuneration	Corporate Governance	Audit	Risk & Compliance
	26	4(d)	1(e)	4	1(e)
Adel Abdul Wahab Al-Majed	24(a)	N/A	1(a)	N/A	N/A
Ibrahim Ali Al-Qadhi	2(b)	N/A	N/A	N/A	N/A
Mahmoud Y. Al-Fulaij	N/A	4(a)	N/A	4(a)	N/A
Ahmad K. Al-Humaidhi	N/A	N/A	1	3	1
Ahmed Yousef Al-Saqer	N/A	N/A	1	N/A	1(a)
Hazim Ali Al-Mutairi	25	N/A	N/A	N/A	N/A
Abdulaziz Abdullah Al-Shaya	20	4	N/A	N/A	N/A
Farid Soud Al-Fowzan	11(c)	3	N/A	N/A	N/A
Waleed Mishari Al-Hamad	N/A	N/A	N/A	4	1
Yousef Abdullah Al-Qatami	20	N/A	N/A	N/A	N/A

(a) Chairperson (b) Resigned in March 2012, after the second meeting (c) Started from the seventh meeting
(d) Established in 1 April 2012 (e) Established in 31 July 2012
N/A: Not Applicable

Internal Control

The Board is responsible for ensuring the adequacy of the Group's internal control framework. This includes, but is not restricted to, the approval and oversight of the implementation of the strategy via policies that reflect the prudent Sharia'a compliant approach to conducting its businesses. The internal control processes include controls and limits that are embedded in all processes; risk and control reports are an integral part of the Group's daily activities. Such procedures were designed to manage and mitigate risk of failure to achieve business objectives and can only provide reasonable and rather than absolute assurance against material misstatement, errors, losses or fraud.

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various entities involved in the internal control system, including:

- Sharia'a Board
- External Audit
- Independent Internal Control Review
- Internal Audit
- Risk Management
- Compliance
- Corporate Governance

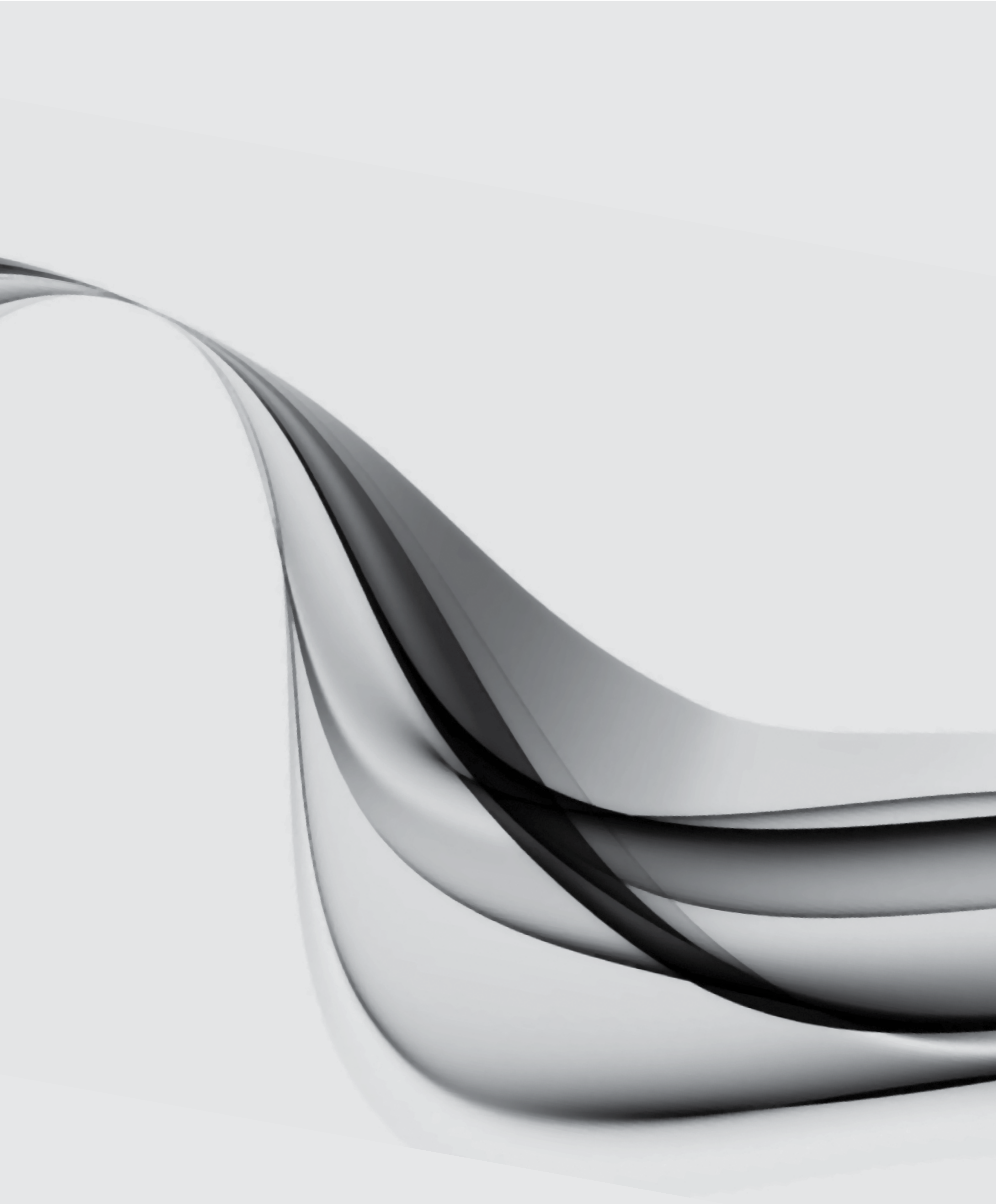
Major Shareholders

As of December 31, 2012, the major shareholders owning or controlling more than 5% of capital were as follows:

Name of Shareholder	Percentage of Ownership
National Bank of Kuwait S.A.K.	58.3%
Commercial Bank of Kuwait S.A.K	19.9%

Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2012



Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2012

1. INTRODUCTION AND OVERVIEW

In July 2009, the Central Bank of Kuwait ("CBK") issued directives on the adoption of the Capital Adequacy Standards under Basel II framework applicable to Islamic banks in Kuwait. These directives set out the new capital adequacy rules for calculating and maintaining the minimum capital required for credit, market and operational risk under the "Standardizes Approach". The CBK Basel II framework is intended to strengthen risk management and market discipline and to enhance the safety and soundness of the banking industry in Kuwait. Furthermore, and in compliance with aforementioned instructions, Boubyan Bank K.S.C has developed an ICAAP and Stress Test framework along with underlying models, policies and procedures. Boubyan Bank continually enhances its ICAAP and Stress Test framework to maintain its capital commensurate with the overall risks to which the Bank is exposed

2. GROUP STRUCTURE

Boubyan Bank K.S.C. ("the Bank") is a public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 passed in 2003). The Bank's shares were listed in Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the Central Bank of Kuwait on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with codes of the Islamic Shari'a, as approved by the Bank's Shari'a Supervisory Board.

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2012 proportion of ownership interest and voting power %**	2011 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company KSC (Closed)	Kuwait	**67.63**	57.63	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	**100.00**	100.00	Islamic investments

3. CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIOS

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong 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. During the year, the Group has complied in full with all its externally imposed capital requirements.

The Group's regulatory capital and capital adequacy ratios are shown below:

	2012	2011
	KD'000	KD'000
Tier 1 capital		
Share capital	**174,824**	174,824
Share premium	**62,896**	62,895
Proposed bonus shares	**8,741**	-
Treasury shares	**(1,024)**	(1,024)
Statutory reserve	**1,891**	842
Voluntary reserve	**1,813**	802
Share based payment reserve	**537**	253
Retained earnings	**5,424**	6,381
Non-controlling interest	**2,514**	2,923
Deductions from tier 1 capital	**(3,246)**	(13,040)
	254,370	234,856
Tier 2 capital		
Fair value reserve & foreign currency translation reserve	**(3,334)**	(1,628)
General provision	**12,380**	10,928
Deductions from tier 2 capital	**(3,246)**	(13,040)
	5,800	(3,740)
Total regulatory capital	**260,170**	231,116
Risk-weighted assets	**1,066,494**	922,151
Capital ratios		
Total regulatory capital expressed as a percentage of total risk- weighted assets	**24.39%**	25.06%
Total tier 1 capital expressed as a percentage of risk-weighted assets	**23.85%**	25.47%

4. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirements for credit, market and operational risks were as follows:

4.1 Credit risk

The capital charge in respect of credit risk as at 31 December 2012 was **KD 116,889 thousand** (2011: KD 102,233 thousand) as detailed below:

2012	**Gross credit exposure KD'000**	**Risk-weighted assets KD'000**	**Capital charge KD'000**
Cash	**14,020**	**-**	**-**
Claims on sovereigns	**159,119**	**-**	**-**
Claims on banks	**258,029**	**46,342**	**5,561**
Claims on corporates	**678,561**	**347,804**	**41,736**
Regulatory retail exposure	**405,725**	**279,654**	**33,558**
Past due exposures	**21,978**	**12,989**	**1,559**
Investment property	**17,904**	**35,808**	**4,297**
Investment and financing with customers	**264,855**	**113,832**	**13,660**
Sukuk	**33,685**	**25,174**	**3,021**
Other exposures	**133,525**	**112,471**	**13,497**
	1,987,401	**974,074**	**116,889**

2011	Gross credit exposure KD'000	Risk-weighted assets KD'000	Capital charge KD'000
Cash	9,225	-	-
Claims on sovereigns	147,384	-	-
Claims on banks	169,929	26,461	3,175
Claims on corporates	669,618	371,136	44,536
Regulatory retail exposure	240,895	166,759	20,011
Past due exposures	5,476	1,085	130
Investment property	25,891	51,783	6,214
Investment and financing with customers	214,147	129,607	15,553
Sukuk	32,964	20,648	2,478
Other exposures	111,148	84,469	10,136
	1,626,677	851,948	102,233

Other exposures above includes an amount of **KD 16,306 thousand** (2011: KD 22,438 thousand) representing the amount of general provision in excess of the 1.25% allowed as a contribution towards Tier 2 capital.

4. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (CONTINUED)

4.2 Market risk

The capital charge in respect of market risk arising from the self-financed exposures as at 31 December 2012 was **KD 2,995 thousand** (2011: KD 2,054 thousand) as detailed below:

	2012	2011
	KD'000	KD'000
Foreign exchange risk	**2,995**	2,054
Multiplier	**8.333**	8.333
Risk weighted assets	**24,955**	17,116

4.3 Operational risk

The capital charge in respect of operational risk as at 31 December 2012 was **KD 8,096 thousand** (2011: KD 6,371 thousand). This capital charge was computed using basic indicator approach.

The following table summarizes amount of operational risk exposure and related capital requirements:

	2012	2011
	KD'000	KD'000
Average gross income	**53,974**	42,473
Multiplier	**8.333**	8.333
	449,765	353,928
Eligible portion for the purpose of calculation	**15%**	15%
Total operational risk exposure	**67,465**	53,089

5. RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

The risk which the Group is exposed to includes:

- Credit risk
- Market risk
- Operational risk (includes IT risk)
- Liquidity risk

5.1 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions.

The credit risk function monitors and ensures that the collaterals and their concentrations are timely checked and reported to the management. It also ensures adherence to Group's collateral policy is monitored, reviewed and timely reported regularly for the changing dynamics of credit exposures. Financing portfolio risk report is timely prepared and all the aspects of the lending, their concentrations and collateral weightings are checked and reported.

5.1.1 Group credit risk mitigation strategy

Effective risk mitigation is fundamental to the strategy of the Group. In order to mitigate its credit risk, Group exclusively deals with counterparties with approved limits as specified by Group policy, based on the counter parties overall position for meeting the financial obligations backed by adequate collaterals.

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework.

The main types of collateral accepted includes

- Real estate.
- Shares
- Sukuk
- Cash collateral and
- Bank guarantees.

The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.1 Group credit risk mitigation strategy (continued)

The Group's credit exposures were covered by the following Eligible collaterals:

		Eligible collaterals		
	Gross credit exposure	**Financial collaterals**	**Other collaterals**	**Net credit exposure**
2012	**KD'000**	**KD'000**	**KD'000**	**KD'000**
Cash	**14,020**	**-**	**-**	**14,020**
Claims on sovereigns	**159,119**	**-**	**-**	**159,119**
Claims on banks	**258,029**	**-**	**-**	**258,029**
Claims on corporates	**678,561**	**75,554**	**126,691**	**476,316**
Regulatory retail exposure	**405,725**	**-**	**-**	**405,725**
Past due exposures	**21,978**	**3,125**	**-**	**18,853**
Investment property	**17,904**	**-**	**-**	**17,904**
Investment and financing with customers	**264,855**	**51,862**	**102,893**	**110,100**
Sukuk	**33,685**	**-**	**-**	**33,685**
Other exposures	**133,525**	**-**	**-**	**133,525**
	1,987,401	**130,541**	**229,584**	**1,627,276**

		Eligible collaterals		
	Gross credit exposure	Financial collaterals	Other collaterals	Net credit exposure
2011	KD'000	KD'000	KD'000	KD'000
Cash	9,225	-	-	9,225
Claims on sovereigns	147,384	-	-	147,384
Claims on banks	169,929	-	-	169,929
Claims on corporates	669,618	77,375	83,236	509,007
Regulatory retail exposure	240,895	-	-	240,895
Past due exposures	5,476	2,306	61	3,109
Investment property	25,891	-	-	25,891
Investment and financing with customers	214,147	34,450	54,879	124,818
Sukuk	32,964	-	-	32,964
Other exposures	111,148	-	-	111,148
	1,626,677	114,131	138,176	1,374,370

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.2 Gross credit exposures

The Group's gross credit exposures are detailed below:

2012	**Gross credit exposure**	**Self-funded exposure**	**Funded through investments accounts exposure**
	KD'000	**KD'000**	**KD'000**
Cash	**14,020**	**5,307**	**8,713**
Claims on sovereigns	**159,119**	**60,232**	**98,887**
Claims on banks	**258,029**	**103,337**	**154,692**
Claims on corporates	**678,561**	**303,296**	**375,265**
Regulatory retail exposure	**405,725**	**153,582**	**252,143**
Past due exposures	**21,978**	**8,320**	**13,658**
Investment property	**17,904**	**17,904**	**-**
Investment and financing with customers	**264,855**	**100,257**	**164,598**
Sukuk	**33,685**	**33,685**	**-**
Other exposures	**133,525**	**124,030**	**9,495**
	1,987,401	**909,950**	**1,077,451**

2011	Gross credit exposure	Self-funded exposure	Funded through investments accounts exposure
	KD'000	KD'000	KD'000
Cash	9,225	3,547	5,678
Claims on sovereigns	147,384	56,668	90,716
Claims on banks	169,929	69,073	100,856
Claims on corporates	669,618	299,535	370,083
Regulatory retail exposure	240,895	92,622	148,273
Past due exposures	5,476	2,117	3,359
Investment property	25,891	25,891	-
Investment and financing with customers	214,147	82,338	131,809
Sukuk	32,964	32,964	-
Other exposures	111,148	102,629	8,519
	1,626,677	767,384	859,293

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Average credit exposures

The Group's quarter-based average credit exposure for the period ended 31 December 2012 comprises the following:

2012	**Average credit exposure**	**Self-funded exposure**	**Funded through investments accounts exposure**
	KD'000	**KD'000**	**KD'000**
Cash	**12,654**	**4,732**	**7,922**
Claims on sovereigns	**152,321**	**56,812**	**95,509**
Claims on banks	**213,323**	**80,124**	**133,199**
Claims on corporates	**610,069**	**228,696**	**381,373**
Regulatory retail exposure	**335,540**	**125,675**	**209,865**
Past due exposures	**18,271**	**6,825**	**11,446**
Investment property	**22,176**	**22,176**	**-**
Investment and financing with customers	**245,170**	**91,800**	**153,370**
Sukuk	**33,525**	**33,525**	**-**
Other exposures	**123,597**	**114,917**	**8,680**
	1,766,646	**765,282**	**1,001,364**

2011	Average credit exposure	Self-funded exposure	Funded through investments accounts exposure
	KD'000	KD'000	KD'000
Cash	8,850	3,423	5,427
Claims on sovereigns	115,658	44,642	71,016
Claims on banks	190,202	73,671	116,531
Claims on corporates	561,455	219,484	341,971
Regulatory retail exposure	192,141	74,261	117,880
Past due exposures	10,972	4,280	6,692
Investment property	30,597	30,597	-
Investment and financing with customers	217,528	84,248	133,280
Sukuk	30,803	30,803	-
Other exposures	124,115	97,277	26,838
	1,482,321	662,686	819,635

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Geographical distribution of the gross credit exposures

The geographical distribution of the gross credit exposure is as detailed below:

2012	**Kuwait and The Middle East KD'000**	**North America KD'000**	**Western Europe KD'000**	**Other KD'000**	**Total KD'000**
Cash	**14,020**	**-**	**-**	**-**	**14,020**
Claims on sovereigns	**159,119**	**-**	**-**	**-**	**159,119**
Claims on banks	**235,165**	**476**	**18,232**	**4,156**	**258,029**
Claims on corporates	**675,041**	**-**	**-**	**3,520**	**678,561**
Regulatory retail exposure	**405,725**	**-**	**-**	**-**	**405,725**
Past due exposures	**20,628**	**-**	**1,350**	**-**	**21,978**
Investment property	**5,811**	**-**	**11,585**	**508**	**17,904**
Investment and financing with customers	**260,791**	**-**	**4,064**	**-**	**264,855**
Sukuk	**29,318**	**-**	**4,367**	**-**	**33,685**
Other exposures	**61,041**	**69**	**30,259**	**42,156**	**133,525**
	1,866,659	**545**	**69,857**	**50,340**	**1,987,401**

2011	Kuwait and The Middle East KD'000	North America KD'000	Western Europe KD'000	Other KD'000	Total KD'000
Cash	9,225	-	-	-	9,225
Claims on sovereigns	147,384	-	-	-	147,384
Claims on banks	151,837	-	14,079	4,013	169,929
Claims on corporates	667,132	-	754	1,732	669,618
Regulatory retail exposure	240,895	-	-	-	240,895
Past due exposures	1,188	-	1,800	2,488	5,476
Investment property	2,181	657	22,437	616	25,891
Investment and financing with customers	210,298	-	3,849	-	214,147
Sukuk	28,810	-	-	4,154	32,964
Other exposures	77,634	195	26,447	6,872	111,148
	1,536,584	852	69,366	19,875	1,626,677

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Maturity profile of gross credit exposures

The Group's gross credit exposure by residual contractual maturity is as detailed below:

2012	**Up to 3 months**	**3 – 6 months**	**6 – 12 months**	**Over 1 year**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
Cash	**14,020**	**-**	**-**	**-**	**14,020**
Claims on sovereigns	**111,051**	**40,062**	**8,006**	**-**	**159,119**
Claims on banks	**217,052**	**32,338**	**10**	**8,629**	**258,029**
Claims on corporates	**405,451**	**161,291**	**85,892**	**25,927**	**678,561**
Regulatory retail exposure	**2,405**	**235**	**2,186**	**400,899**	**405,725**
Past due exposures	**21,978**	**-**	**-**	**-**	**21,978**
Investment property	**-**	**-**	**-**	**17,904**	**17,904**
Investment and financing with customers	**191,340**	**64,130**	**9,072**	**313**	**264,855**
Sukuk	**-**	**-**	**2,111**	**31,574**	**33,685**
Other exposures	**3,281**	**-**	**3,979**	**126,265**	**133,525**
	966,578	**298,056**	**111,256**	**611,511**	**1,987,401**

2011	Up to 3 months	3 – 6 months	6 – 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Cash	9,225	-	-	-	9,225
Claims on sovereigns	147,384	-	-	-	147,384
Claims on banks	137,460	32,469	-	-	169,929
Claims on corporates	389,666	191,550	65,242	23,160	669,618
Regulatory retail exposure	1,732	129	749	238,285	240,895
Past due exposures	5,476	-	-	-	5,476
Investment property	-	-	-	25,891	25,891
Investment and financing with customers	117,223	86,140	5,507	5,277	214,147
Sukuk	-	-	4,178	28,786	32,964
Other exposures	11,492	-	-	99,656	111,148
	819,658	310,288	75,676	421,055	1,626,677

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6 Past due and impairment provision

Credit facilities are classified as "past due" when a payment has not been received on its contractual payment date.

A credit facility is considered as "impaired" if the profit or principal installment is past due for more than 90 days, or if the carrying amount of the facility is greater than its estimated recoverable value.

Past due and impaired facilities are managed and monitored as "irregular facilities" and classified into the following four categories, which are then used to guide the provisioning process:

Category	Criteria
Watch list	Irregular for a period up to 90 days
Substandard	Irregular for a period between 91 and 180 days
Doubtful	Irregular for a period between 181 days and 365 days
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgment of a customer's financial and/or non-financial circumstances.

The Group's impaired portfolio as at 31 December 2012 was **KD 24,827 thousand** (2011: KD 8,149 thousand) against which a specific provision of **KD 4,261 thousand** (2011: KD 2,673 thousand) has been made, as detailed below.

	Impaired finance facilities	**Related specific provision**	**Net balance**
2012	**KD'000**	**KD'000**	**KD'000**
Claims on corporates	**22,210**	**2,461**	**19,749**
Regulatory retail exposure	**2,617**	**1,800**	**817**
	24,827	**4,261**	**20,566**

	Impaired finance facilities	Related specific provision	Net balance
2011	KD'000	KD'000	KD'000
Claims on banks	1,800	-	1,800
Claims on corporates	4,224	548	3,676
Regulatory retail exposure	2,125	2,125	-
	8,149	2,673	5,476

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6 Past due and impairment provision (continued)

The geographical distribution of impaired loans and the related specific provision is as follows:

	Impaired finance facilities	**Related specific provision**	**Net balance**
2012	**KD'000**	**KD'000**	**KD'000**
Kuwait and The Middle East	**24,827**	**4,261**	**20,566**
	24,827	**4,261**	**20,566**

	Impaired finance facilities	Related specific provision	Net balance
2011	KD'000	KD'000	KD'000
Kuwait and The Middle East	3,945	2,673	1,272
Western Europe	1,800	-	1,800
Other	2,404	-	2,404
	8,149	2,673	5,476

In accordance with CBK regulations, a general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain eligible categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Provisions Committee.

The Group's total provision as at 31 December 2012 was **KD 32,946 thousand** (2011: KD 36,041 thousand) inclusive of a general provision of **KD 28,685 thousand** (2011: KD 33,368 thousand) as detailed below:

	Provision balance 01/01/2012	**Provided /(released) during the year**	**General provision balance 31/12/2012**
2012	**KD'000**	**KD'000**	**KD'000**
Claims on corporates	**9,220**	**1,200**	**10,420**
Regulatory retail exposure	**1,509**	**717**	**2,226**
Investment and financing with customers	**2,551**	**469**	**3,020**
Un-allocated general provision	**20,088**	**(7,069)**	**13,019**
	33,368	**(4,683)**	**28,685**

5. RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6 Past due and impairment provision (continued)

	Provision balance 01/01/2011	Provided /(released) during the year	Provision balance 31/12/2011
2011	KD'000	KD'000	KD'000
Claims on corporates	7,847	1,373	9,220
Regulatory retail exposure	1,015	494	1,509
Investment and financing with customers	2,111	440	2,551
Un-allocated general provision	12,524	7,564	20,088
	23,497	9,871	33,368

The geographical distribution of the general provision is as follows:

	2012	2011
	KD'000	KD'000
Kuwait and Middle East	**15,590**	13,201
Western Europe	**41**	42
Other	**35**	38
Un-allocated general provision	**13,019**	20,087
	28,685	33,368

The total general provisions balance above includes **KD 1,395 thousand** (2011: KD 1,238 thousand) relating to non-cash facilities in accordance with CBK regulations.

The analysis of specific and general provisions is further detailed in note 7 of the Group's consolidated financial statement.

5. RISK MANAGEMENT (CONTINUED)

5.2 Market risk

Market risk is the risk that the value of assets will fluctuate because of changes in market prices.

The Group has an approved Assets & Liability Management Committee (ALCO) policy, comprising of members from the Group's executive management. The Market risk function has set in place various measures and controls to mitigate market risk such as continuous monitoring of the liquidity position of the Group, primarily ensuring its compliance with the regulatory and management requirements and reporting to the management.

Currently the Group has minimal trading book positions and hence its exposure to those risks is minimal.
The Market risk functions adopts a comprehensive approach for the middle management to measure, manage and effectively monitor risks , in particular consumer banking, corporate banking, investment banking and treasury.

Vetting of investment proposals and providing the senior management with due risk reviews is one of the key elements of market risk management. In addition, effectively monitoring and reporting on the various positions taken by the group in foreign currencies and especially with regards to the liquidity of the Group.

5. RISK MANAGEMENT (CONTINUED)

5.3 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial or reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the CBK instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

It is a prime task of the Group to avoid and restrict any inadequacy relating to people, processes and technology. Business processes are regularly reviewed and monitored, especially processes relating to I.T. systems. A standard operational risk matrix has been developed to evaluate IT projects and implement the control measures.

The Group has in place its Business Continuity Plan (BCP) and Disaster Recovery Plan forming a part of BCP to meet any internal or external failures or eventualities enabling smooth functioning of the Group business processes.

The Group has fully established Disaster Recovery (DR) sites both local and offshore. And ensures that the operational risk do not affect all the banking business areas. Being an Islamic bank, the bank pays special attention to operational risk that may array from Shari'a non-compliance and the failure in fiduciary responsibilities.

The group emphasizes continuous risk monitoring and reporting with risk ownership and accountability. Risk reporting lines and authority are structured to play key role in addressing specific risks for the Groups' operations.

5.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due.

Liquidity risk management is one of the vital parts of managing day-to-day banking business. In order to meet any eventuality, The group's liquidity strategy is to maintain healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. Furthermore, the Group continuously monitors the maturity profile of its assets and liabilities and ensures its liquidity a position of the Group is within the manageable level.

5.5 Compliance with Shari'a Principles.

Fatwa & Shari'a Supervisory Board of the Bank is responsible for monitoring the Bank's compliance with its issued fatwa and resolutions. The Shari'a Supervisory Board reviews and approves the contract and agreement forms after obtaining the necessary information to provide its opinion. Random samples of operations related to the Bank's transactions are reviewed through Shari'a supervision according to the annual Shari'a audit plan for all the departments and through the periodic reports provided by the Shari'a supervisory department about the audit processes, field visits, workflow and the validity of implementing the fatwa and resolutions issue by the Shari'a Supervisory Board. Accordingly, an annual report about the Bank's compliance with Shari'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Bank's annual report and submitted to shareholders in the General Assembly. The external auditors have looked at the procedures adopted by the Shari'a Supervisory Board.

Report of Fatwa & Shari'a Supervisory Board

Date: 24 Safar 1434 AH
Corresponding to: 6 January 2013

In the Name of Allah, The Merciful, The Compassionate

Report of Fatwa & Shari'a Supervisory Board
From 01.01.2012to 31.12.2012
To the Shareholders of Boubyan Bank

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, Companions and Followers.

Fatwa & Shari'a Supervisory Board "The Shari'a Board" of Boubyan Bank, having reviewed all contracts and transactions of the Bank for the period from 01.01.2012 to 31.12.2012, amended the same in accordance with the rules and regulations of the Islamic Shari'a and approved them accordingly.

The said transactions and contracts include individual and international murabaha, ijara ending with ownership, investment wakala, sukuk, etc. In addition, standard forms and contracts have been approved for the Bank.

Shari'a Supervision Department assured that all of the Bank's operations and activities have been carried out in accordance with the Shari'a controls and resolutions issued by Fatwa & Shari'a Supervisory Board by examining the documentation and the followed procedures on the basis of testing every type of operation and obtaining all information and explanations deemed necessary for the Shari'a Board to express its opinion on compliance with the Islamic Shari'a.

In our opinion, Boubyan Bank's operations and activities for the financial year ended 31.12.2012 presented to us are all in compliance with the Islamic Shari'a.

We invoke the Almighty Allah to guide the Bank's management towards integrity and more success.
Peace be upon our Prophet Muhammad and his Folk and Companions All,

Sheikh Dr. Ajeel J. Al-Nashmi

Sheikh Dr. Essam K. Al-Enezi

Sheikh Dr. Mohammed O. Al-Fazie

Sheikh Dr. Ibrahim A. Al-Rashed

BOUBYAN BANK K.S.C. AND SUBSIDIARIES

STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Deloitte.

Deloitte & Touche,
Al-Fahad, Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
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Independent Auditors' Report

To the Shareholders of
Boubyan Bank K.S.C.
State of Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boubyan Bank K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Deloitte.

Deloitte & Touche,
Al-Fahad, Al-Wazzan & Co.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts 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 Commercial Companies Law No. 25 of 2012, and by the Bank's Articles of Association, that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law No. 25 of 2012, nor of the Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organization of banking business, and its related regulations during the year ended 31 December 2012.

Bader A. Al-Wazzan
License No. 62A
of Deloitte & Touche
Al-Fahad Al-Wazzan & Co.

Safi A. Al-Mutawa
License No. 138-A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait
20 January 2013

BOUBYAN BANK K.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2012

بـنـك بـوبـيـان
Boubyan Bank

	Notes	2012 KD'000	2011 KD'000
Income			
Murabaha and other Islamic financing income		**64,670**	52,927
Distribution to depositors		**(10,176)**	(11,671)
Murabaha cost		**(2,023)**	(1,647)
Net financing income		**52,471**	39,609
Net investment loss	5	**(522)**	(2,295)
Net fees and commission income	6	**3,679**	3,991
Share of results of associates	15	**2,364**	3,611
Net foreign exchange gain		**886**	858
Other income		**1**	165
Operating income		**58,879**	45,939
Staff costs		**(17,249)**	(15,605)
General and administrative expenses		**(9,311)**	(8,181)
Depreciation and amortization		**(1,911)**	(1,594)
Operating expenses		**(28,471)**	(25,380)
Operating profit before provision for impairment		**30,408**	20,559
Provision for impairment	7	**(20,432)**	(12,226)
Operating profit before deductions		**9,976**	8,333
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(94)**	(76)
National Labour Support Tax ("NLST")		**(209)**	(226)
Zakat		**(83)**	(90)
Board of directors' remuneration		**(54)**	-
Net profit for the year		**9,536**	7,941
Attributable to:			
Equity holders of the Bank		**10,050**	8,025
Non-controlling interests		**(514)**	(84)
Net profit for the year		**9,536**	7,941
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	8	**5.75**	4.59

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	2012 KD'000	2011 KD'000
Net profit for the year	**9,536**	7,941
Other comprehensive income		
Change in fair value of available for sale investments	**(2,190)**	(1,802)
Net realized gains on available for sale investments	**-**	(1,730)
Impairment losses on available for sale Investments transferred to consolidated statement of income	**3,976**	3,224
Foreign currency translation adjustments	**(2,509)**	(891)
Other comprehensive loss for the year	**(723)**	(1,199)
Total comprehensive income for the year	**8,813**	6,742
Attributable to:		
Equity holders of the Bank	**9,327**	6,826
Non-controlling interests	**(514)**	(84)
Total comprehensive income for the year	**8,813**	6,742

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012 KD'000	2011 KD'000
Assets			
Cash and cash equivalents	9	**169,530**	191,957
Due from banks	10	**251,625**	128,061
Islamic financing to customers	11	**1,270,014**	1,030,084
Financial assets at fair value through profit or loss	12	**51,293**	65,197
Available for sale investments	13	**99,929**	66,127
Investments in associates	15	**9,082**	26,449
Investment properties	16	**17,904**	25,613
Other assets	17	**7,916**	7,436
Property and equipment		**7,363**	6,179
Total assets		**1,884,656**	1,547,103
Liabilities and Equity			
Liabilities			
Due to banks		**207,133**	78,987
Depositors' accounts		**1,396,962**	1,202,428
Other liabilities	18	**24,397**	18,520
Total liabilities		**1,628,492**	1,299,935
Equity			
Share capital	19	**174,824**	174,824
Share premium	20	**62,896**	62,896
Proposed bonus shares	21	**8,741**	-
Treasury shares	22	**(1,024)**	(1,024)
Statutory reserve	23	**1,891**	842
Voluntary reserve	24	**1,813**	802
Share based payment reserve	25	**537**	253
Fair value reserve		**3,421**	1,635
Foreign currency translation reserve		**(4,873)**	(2,364)
Retained earnings		**5,424**	6,381
Equity attributable to equity holders of the Bank		**253,650**	244,245
Non-controlling interests		**2,514**	2,923
Total equity		**256,164**	247,168
Total liabilities and equity		**1,884,656**	1,547,103

Adel Abdul Wahab Al Majed
Chairman & Managing Director

BOUBYAN BANK K.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital KD'000	Share premium KD'000	Proposed bonus shares KD'000	Treasury shares KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Share based payment reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Retained earnings KD'000	Equity attributable to equity holders of the Bank KD'000	Non-controlling interests KD'000	Total equity KD'000
Balance at 1 January 2011	174,824	87,728	-	-	3,913	3,591	-	1,943	(1,473)	(32,336)	238,190	1,920	240,110
Total comprehensive income for the year	-	-	-	-	-	-	-	(308)	(891)	8,025	6,826	(84)	6,742
Transfer to reserves	-	-	-	-	842	802	-	-	-	(1,644)	-	-	-
Write off of accumulated losses	-	(24,832)	-	-	(3,913)	(3,591)	-	-	-	32,336	-	-	-
Purchase of treasury shares	-	-	-	(1,024)	-	-	-	-	-	-	(1,024)	-	(1,024)
Share based payment (note 25)	-	-	-	-	-	-	253	-	-	-	253	-	253
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,087	1,087
Balance at 31 December 2011	**174,824**	**62,896**	**-**	**(1,024)**	**842**	**802**	**253**	**1,635**	**(2,364)**	**6,381**	**244,245**	**2,923**	**247,168**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,786**	**(2,509)**	**10,050**	**9,327**	**(514)**	**8,813**
Transfer to reserves	**-**	**-**	**-**	**-**	**1,049**	**1,011**	**-**	**-**	**-**	**(2,060)**	**-**	**-**	**-**
Proposed bonus shares (note 21)	**-**	**-**	**8,741**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,741)**	**-**	**-**	**-**
Share based payment (note 25)	**-**	**-**	**-**	**-**	**-**	**-**	**284**	**-**	**-**	**-**	**284**	**-**	**284**
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(206)**	**(206)**	**(888)**	**(1,094)**
Net movement in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**993**	**993**
Balance at 31 December 2012	**174,824**	**62,896**	**8,741**	**(1,024)**	**1,891**	**1,813**	**537**	**3,421**	**(4,873)**	**5,424**	**253,650**	**2,514**	**256,164**

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C. AND SUBSIDIARIES
STATE OF KUWAIT

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 KD'000	2011 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**9,536**	7,941
Adjustments for:			
Provision for impairment	7	**20,432**	12,226
Depreciation and amortization		**1,911**	1,594
Foreign currency translation adjustments		**(2,468)**	800
Loss / (gain) on sale of investments		**373**	(1,728)
Unrealized loss from financial assets at fair value through profit or loss		**14,234**	1,202
Share of results of associates		**(2,364)**	(3,611)
Unrealised profit on interest retained subsequent to loss of significant influence		**(18,087)**	-
Realized profit from partial disposal of associate		**(5,703)**	-
Dividend income		**(872)**	(906)
Net unrealized loss from change in fair value of investment properties		**5,026**	5,402
Loss on sale of investment properties		**7,433**	-
Share based payment reserve		**284**	253
Operating profit before changes in operating assets and liabilities		**29,735**	23,173
Changes in operating assets and liabilities:			
Due from banks		**(128,384)**	18,836
Islamic financing to customers		**(256,010)**	(210,882)
Other assets		**(757)**	(2,314)
Due to banks		**128,147**	(41,543)
Depositors' accounts		**194,535**	261,400
Other liabilities		**5,877**	7,543
Dividend income received		**872**	906
Net cash (used in) / generated from operating activities		**(25,985)**	57,119
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(1,990)**	(3,099)
Proceeds from sale of financial assets at fair value through profit or loss		**2,596**	13,378
Purchase of available for sale investments		**(6,754)**	(39,130)
Proceeds from sale of available for sale investments		**6,936**	29,003
Dividends received from associates	15	**290**	337
Acquisition of associates		**-**	(2,570)
Proceeds from disposals of investment in associates	15	**9,638**	-
Purchase of investment properties		**(3,961)**	(700)
Purchase of property and equipment		**(3,096)**	(3,098)
Acquisition of non-controlling interests		**(1,094)**	-
Net cash generated from / (used in) investing activities		**2,565**	(5,879)
FINANCING ACTIVITES			
Net movement in non-controlling interests		**993**	1,087
Purchase of treasury shares		**-**	(1,024)
Net cash generated from financing activities		**993**	63
Net (decrease)/ increase in cash and cash equivalents		**(22,427)**	51,303
Cash and cash equivalents at the beginning of the year		**191,957**	140,654
Cash and cash equivalents at the end of the year	9	**169,530**	191,957

The notes from 1 to 32 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C. ("the Bank") is a public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 passed in 2003). The Bank's shares were listed in Kuwait Stock Exchange on 15 May 2006.

The Bank is licensed by the Central Bank of Kuwait on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The total number of employees in the Group was **807** as at 31 December 2012 (738 employees as at 31 December 2011).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the IAS 39 requirements for collective impairment provision, which has been replaced by the CBK requirements for a minimum general provision as described in accounting policy 3.9.1.

The consolidated financial statements were authorised for issue by the Board of Directors on 8 January 2013 and the shareholders have the power to amend these consolidated financial statement at the annual assembly meeting.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of investment securities other than held to maturity investments and investment properties.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousand, except when otherwise indicated.

2.4 New standards, interpretations and amendments effective from 1 January 2012

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2012, have had a material effect on the consolidated financial statements.

2.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 "Financial Instruments", which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The extent of the impact has not yet been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal operating subsidiaries (collectively "the Group"), Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., which are controlled by the Bank as set out in note 14.

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in consolidated statement of income.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 Non-controlling interests

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3.1.4 Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3.1.5 Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.5 Investments in associates (equity-accounted investees) (continued)

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of income.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of income for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of income for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of income in the year in which the foreign operation is disposed off.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3.4 Financial instruments

3.4.1 Financial assets

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of income for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

The Group classifies financial assets into the following categories: cash and cash equivalents, due from banks, Islamic financing to customers, financial assets at fair value through profit or loss, available for sale investments and other assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Due from banks and Islamic financing to customers

Due from banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amounts equal to the net investment outstanding in the leases less provision for impairment.

Renegotiated finance facilities

In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of income as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in consolidated statement of income.

Available-for-sale investment

Available-for-sale investment is non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available-for-sale investment is recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.9.1) and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.2 Financial liabilities

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

Due to banks and depositors' accounts

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Bank. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Bank. Non-investment accounts are carried at cost.

Murabaha payable

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortized cost.

3.5 Fair values

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a fair value based on a similar publicly traded company, or based on the expected cash flows of the investments.

Available for sale investments with no reliable measures of their fair values are carried at their initial cost less impairment losses, if any.

3.6 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of income. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in consolidated statement of income over the estimated useful lives of each component

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- Furniture and leasehold improvement 5 years
- Office equipment 3 years
- Building on leasehold land 20 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3.8 Intangible assets

Intangible assets acquired separately, which consist of software that have finite useful lives, are reported at cost less accumulated amortization and accumulated impairment losses. Software amortization is charged on a straight-line basis over its estimated useful life of 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

3.9 Impairment

3.9.1 Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses are recognised in the consolidated statement of income and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of income.

In addition, in accordance with CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made. In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the CBK is issued.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (continued)

***3.9.1 Financial assets* (continued)**

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the fair value reserve in equity to consolidated statement of income. The cumulative loss that is reclassified from equity to consolidated statement of income is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3.9.2 Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable

3.12 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

3.13 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3.14 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method.Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION

4.1 Critical judgments in applying the Group's accounting policies

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 in the amounts recognized in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets at fair value through profit or loss, the Group determines if it meets one of the criteria for this designation set out in the significant accounting policies (note 3).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION (CONTINUED)

4.1 Critical judgments in applying the Group's accounting policies (continued)

Impairment of investments

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

Fair value hierarchy

As disclosed in note 29, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

4.2 Key sources of estimation uncertainly

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

Impairment losses on finance facilities

The Group reviews its irregular 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 based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. NET INVESTMENT LOSS

	2012	2011
	KD'000	KD'000
Unrealized profit on interest retained subsequent to loss of significant influence (note 15)	**18,087**	-
Realized profit from partial disposal of associate (note 15)	**5,703**	-
Sukuk coupon income	**1,687**	1,571
Dividend income	**872**	906
Net rental income from investment properties	**195**	104
Unrealized loss from financial assets at fair value through profit or loss	**(14,234)**	(1,202)
Loss on sale of investment properties	**(7,433)**	-
Unrealized loss from changes in fair value of investment properties	**(5,026)**	(5,402)
(Loss)/gain on sale of financial assets at fair value through profit or loss	**(276)**	133
(Loss)/gain on sale of available for sale investment	**(97)**	1,595
	(522)	(2,295)

6. NET FEES AND COMMISSION INCOME

	2012 **KD'000**	2011 KD'000
Gross fees and commission income	**4,825**	4,873
Fees and commission expenses	**(1,146)**	(882)
	3,679	3,991

7. PROVISION FOR IMPAIRMENT

	2012 **KD'000**	2011 KD'000
Provision for impairment of finance facilities	**16,175**	6,494
Provision for impairment of available for sale investment	**3,976**	3,224
Provision for impairment of other assets	**281**	2,508
	20,432	12,226

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2011	1,711	23,497	25,208
(Released) / provided during the year	(3,377)	9,871	6,494
Recovery of written off balances	4,535	-	4,535
Written off balances during the year	(196)	-	(196)
Balance at 31 December 2011	2,673	33,368	36,041
Provided/(released) during the year	**20,858**	**(4,683)**	**16,175**
Recovery of written off balances	**240**	**-**	**240**
Written off balances during the year	**(19,532)**	**-**	**(19,532)**
Foreign currency movement	**22**	**-**	**22**
Balance at 31 December 2012	**4,261**	**28,685**	**32,946**

Further analysis of provision for impairment of finance facilities by category is as follows:

	Due from banks KD'000	Islamic finance to customers KD'000	Non-cash facilities KD'000	Total KD'000
Balance at 1 January 2011	-	24,194	1,014	25,208
(Released)/ provided during the year	(4,350)	10,620	224	6,494
Recovery of written off balances	4,350	185	-	4,535
Written off balances during the year	-	(196)	-	(196)
Balance at 31 December 2011	-	34,803	1,238	36,041
Provided during the year	**5,616**	**10,402**	**157**	**16,175**
Recovery of written off balances	**-**	**240**	**-**	**240**
Written off balances during the year	**(5,638)**	**(13,894)**	**-**	**(19,532)**
Foreign currency movement	**22**	**-**	**-**	**22**
Balance at 31 December 2012	**-**	**31,551**	**1,395**	**32,946**

At 31 December 2012, non-performing finance facilities amounted to **KD 20,566 thousand**, net of provision of **KD 4,261 thousand** (31 December 2011: 5,476 thousand net of provision of KD 2,673 thousand). The analysis of specific and general provision stated above is based on CBK instructions.

8. BASIC AND DILUTED EARNING PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change from the reported basic earnings per share.

	2012	2011
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**10,050**	8,025
Weighted average number of shares outstanding during the year (thousands of shares)	**1,746,520**	1,747,228
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**5.75**	4.59

9. CASH AND CASH EQUIVALENTS

	2012	2011
	KD'000	KD'000
Cash on hand	**14,020**	9,225
Balances with CBK – current account	**840**	177
Balances with banks – current accounts	**3,675**	11,477
Placement with banks maturing within seven days	**150,995**	171,078
	169,530	191,957

The fair values of cash and cash equivalents do not differ from their respective carrying values.

10. DUE FROM BANKS

The geographical distribution of balances due from banks is as follows:

	2012	2011
	KD'000	KD'000
Kuwait & Middle East	**240,911**	126,443
Europe	**11,090**	1,800
Less: deferred profit	**(376)**	(182)
	251,625	128,061

11. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East	Europe	Asia	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2012				
Corporate banking	**889,242**	**4,125**	**3,520**	**896,887**
Consumer banking	**540,791**	**-**	**-**	**540,791**
Less: deferred profit	**(136,052)**	**(61)**	**-**	**(136,113)**
	1,293,981	**4,064**	**3,520**	**1,301,565**
Less: provision for impairment	**(31,475)**	**(41)**	**(35)**	**(31,551)**
	1,262,506	**4,023**	**3,485**	**1,270,014**
2011				
Corporate banking	821,349	4,476	3,802	829,627
Consumer banking	325,670	-	-	325,670
Less: deferred profit	(90,118)	(292)	-	(90,410)
	1,056,901	4,184	3,802	1,064,887
Less: provision for impairment	(34,723)	(42)	(38)	(34,803)
	1,022,178	4,142	3,764	1,030,084

11. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

Provision for impairment of Islamic financing to customers is calculated and analysed based on CBK instructions on the outstanding balance net of deferred profits (if any) as follows:

	Specific		General		Total	
	2012	2011	**2012**	2011	**2012**	2011
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**
Balance at beginning of the year	**2,673**	1,711	**32,130**	22,483	**34,803**	24,194
Provided/(release) during the year	**15,242**	973	**(4,840)**	9,647	**10,402**	10,620
Recovery of written off balances	**240**	185	**-**	-	**240**	185
Written off balances	**(13,894)**	(196)	**-**	-	**(13,894)**	(196)
Balance at end of the year	**4,261**	2,673	**27,290**	32,130	**31,551**	34,803

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2012	2011	**2012**	2011	**2012**	2011
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**
Balance at beginning of the year	**349**	266	**2,324**	1,445	**2,673**	1,711
Provided/(released) during the year	**15,766**	89	**(524)**	884	**15,242**	973
Recovery of written off balances	**240**	185	**-**	-	**240**	185
Written off balances	**(13,894)**	(191)	**-**	(5)	**(13,894)**	(196)
Balance at end of the year	**2,461**	349	**1,800**	2,324	**4,261**	2,673

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2012	2011
	KD'000	**KD'000**
Islamic financing to customers	**24,827**	8,149
Specific provision for impairment	**(4,261)**	(2,673)
	20,566	5,476

At 31 December 2012 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to **KD 17,594 thousand** (31 December 2011: KD 6,025 thousand).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
	KD'000	KD'000
Investment in unquoted securities	**32,781**	30,461
Investment in quoted securities	**1,181**	3,849
Investment in unquoted funds	**17,331**	30,887
	51,293	65,197

13. AVAILABLE FOR SALE INVESTMENTS

	2012	2011
	KD'000	KD'000
Investment in Sukuk	**33,685**	35,164
Investment in unquoted funds	**17,711**	17,690
Investment in unquoted securities	**44,968**	10,640
Investment in quoted securities	**3,565**	2,633
	99,929	66,127

14. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2012 proportion of ownership interest and voting power %**	2011 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company KSC (Closed)	Kuwait	**67.63**	57.63	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	**100.00**	100.00	Islamic investments

15. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	**2012 proportion of ownership interest and voting power %**	2011 proportion of ownership interest and voting power %	Principal activity
United Capital Bank	Republic of Sudan	**21.67**	21.67	Islamic commercial banking
Bank Syariah Muamalat Indonesia Tbk	Indonesia	**-**	25.03	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	**33.33**	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	**20.00**	20.00	Real Estate

In the prior year, the Group held a 25.03% interest in Bank Syariah Muamalat Indonesia Tbk and accounted for the investment as an associate. On 25 April 2012, the Group disposed off a 6% interest in Bank Syariah Muamalat Indonesia Tbk for a sale of consideration of **KD 9,638 thousand**. The Group has retained the remaining 19.03% interest as an available for sale investment whose fair value at the date of disposal was **KD 30,568 thousand**. This transaction has resulted in the recognition of a gain in the consolidated statement of income, calculated as follows.

	KD'000
Proceeds from the interest disposed off	9,638
Fair value of investment retained (19.03%)	30,568
Amount reclassified from other comprehensive income	(476)
Carrying amount of investment on the date of loss of significant influence	(15,940)
Gain recognized	23,790

The gain recognised in the current period comprises a realised profit of **KD 5,703 thousand** (being the proceeds of **KD 9,638 thousand** less carrying amount of the interest disposed of **KD 3,935 thousand**) and an unrealised profit of **KD 18,087 thousand** (being the fair value less the carrying amount of the 19.03% interest retained).

The movement in the investments in associates' balances is as follows:

	2012 KD'000	2011 KD'000
Balance at the beginning of the year	**26,449**	21,080
Transfer to available for sale investment	**(12,481)**	-
Partial (disposal)/acquisition of associates	**(3,935)**	2,570
Share of results of associates	**2,364**	3,611
Dividends received	**(290)**	(337)
Fair value reserve of associates	**(508)**	445
Foreign currency translation adjustments	**(2,517)**	(920)
	9,082	26,449

15. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of the Group's associates is set out below:

	2012	2011
	KD'000	KD'000
Total assets	**127,870**	973,588
Total liabilities	**(90,436)**	(866,583)
Net assets	**37,434**	107,005
Group's share of net assets	**9,082**	26,449
Group's share of contingent liabilities	**16,078**	14,107

	2012	2011
	KD'000	KD'000
Total revenue	**11,831**	72,906
Net profit	**1,744**	11,540
Group's share of results	**2,364**	3,611

There were no published price quotations for any associates of the Group.

16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2012	2011
	KD'000	KD'000
Balance at the beginning of the year	**25,613**	30,788
Additions during the year	**3,961**	700
Disposals during the year	**(7,390)**	-
Net unrealized loss from change in fair value of investment properties	**(5,026)**	(5,402)
Foreign currency translation adjustments	**746**	(473)
Balance at the ending of the year	**17,904**	25,613

17. OTHER ASSETS

	2012	2011
	KD'000	KD'000
Accrued income	**887**	1,001
Prepayments	**3,092**	1,707
Software	**1,837**	1,655
Trading properties	**-**	279
Others	**2,100**	2,794
	7,916	7,436

18. OTHER LIABILITIES

	2012	2011
	KD'000	KD'000
Creditors and accruals	**5,146**	4,591
Accrued staff benefits	**5,147**	4,530
Clearing accounts	**7,974**	6,478
General provision on non-cash facilities	**1,395**	1,238
Margin accounts	**2,421**	1,025
Others	**2,314**	658
	24,397	18,520

19. SHARE CAPITAL

	2012		2011	
	Shares	**KD'000**	Shares	KD'000
Shares issued and fully paid of 100 fils each	**1,748,235,315**	**174,824**	1,748,235,315	174,824

20. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Kuwait Commercial Companies Law.

21. PROPOSED DIVIDEND

The board of directors recommended distribution of bonus share of 5% on outstanding shares as at 31 December 2012 (2011: Nil). The proposed dividends, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the bank's records as of the date of the general assembly meeting.

22. TREASURY SHARES

The bank held the following treasury shares as at 31 December:

	2012	2011
Number of treasury shares	**1,715,000**	1,715,000
Treasury shares as a percentage of total issued shares - %	**0.0981%**	0.0981%
Cost of treasury shares – KD thousand	**1,024**	1,024
Market value of treasury shares – KD thousand	**1,098**	1,012

23. STATUTORY RESERVE

As required by the Commercial Companies Law and the Bank's Articles of Association 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

24. VOLUNTARY RESERVE

As required by the Bank's Articles of Association 10% of profit for the year attributable to the shareholders of the Bank is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

25. SHARED BASED PAYMENT RESERVE

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **497 fils** (2011:538 fils). The significant inputs into the model were a share price of **590 fils** (2011:630 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **42%** (2011:47%), option life disclosed above and annual risk free rate of 2.5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2012 Number of share options	2011 Number of share options
Outstanding at 1 January	**1,409,630**	-
Granted during the year	**810,280**	1,409,630
Cancelled during the year	**(319,694)**	-
Outstanding at 31 December	**1,900,216**	1,409,630

The expense accrued on account of share based compensation plans for the year amounts to **KD 284 thousand** (31 December 2011: KD 253 thousand) and is included under staff cost.

26. RELATED PARTY TRANSACTIONS

As of 31 July 2012 the majority of the Bank's shares were acquired by the National Bank of Kuwait S.A.K.As a result, the ultimate controlling party of the Group is the National Bank of Kuwait S.A.K ("the Parent Company").

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the parent company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board member or executive officers		Number of related parties			
	2012	2011	**2012**	2011	**2012**	2011
					KD'000	KD'000
Islamic financing to customers	**6**	8	**2**	2	**8,956**	13,653
Depositors' accounts	**12**	11	**7**	7	**33,711**	14,584
Letters of guarantee and letters of credit	**1**	-	**-**	3	**62**	460
Revenues					**194**	510
Expenses					**(335)**	(123)
Proceed from disposal of an Investment					**9,638**	-
Parent Company						
Due from banks					**80,028**	23,003
Due to banks					**53,254**	25,215
Revenues					**98**	396
Expenses					**(145)**	(277)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 1,236 thousand** as at 31 December 2012 (31 December 2011: KD 44,170 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2012	2011
	KD'000	KD'000
Short-term benefits	**1,716**	1,692
Post-employment benefits	**257**	185
Share based compensation	**167**	98
	2,140	1,975

Senior executive officers also participate in the Group's share based payment programme (see note 25)

27. CONTINGENCIES AND COMMITMENTS

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

	2012	2011
	KD'000	KD'000
Guarantees	**137,909**	111,142
Acceptances and letters of credit	**47,749**	39,592
Capital commitments (projects under construction)	**1,307**	856
Credit commitments	**8,437**	20,158
	195,402	171,748

28. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional clients. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking**:** Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking*:* Principally handling direct investments, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

2012	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	**Total KD'000**
Murabaha and other Islamic financing income	**20,388**	**42,337**	**-**	**1,842**	**103**	**64,670**
Distribution to depositors & murabaha cost	**(3,526)**	**(517)**	**(144)**	**(8,250)**	**238**	**(12,199)**
Net financing income	**16,862**	**41,820**	**(144)**	**(6,408)**	**341**	**52,471**
Net investment (loss)/income	**(1)**	**1,687**	**(2,208)**	**-**	**-**	**(522)**
Net fees and commission income	**847**	**2,422**	**2,543**	**-**	**(2,133)**	**3,679**
Share of results of associates	**-**	**-**	**2,364**	**-**	**-**	**2,364**
Net foreign exchange gain	**-**	**-**	**-**	**886**	**-**	**886**
Other income	**-**	**-**	**95**	**-**	**(94)**	**1**
Segment revenues	**17,708**	**45,929**	**2,650**	**(5,522)**	**(1,886)**	**58,879**
Segment expenses	**(7,041)**	**(34,223)**	**(11,799)**	**14,180**	**(10,460)**	**(49,343)**
Segment results	**10,667**	**11,706**	**(9,149)**	**8,658**	**(12,346)**	**9,536**

2012	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	**Total KD'000**
Assets						
Cash and cash equivalents	**11,520**	**-**	**1,530**	**154,603**	**1,877**	**169,530**
Due from banks	**-**	**3,761**	**6,014**	**247,864**	**(6,014)**	**251,625**
Islamic financing to customers	**407,396**	**879,900**	**-**	**-**	**(17,282)**	**1,270,014**
Financial assets at fair value through profit or loss	**-**	**-**	**51,293**	**-**	**-**	**51,293**
Available for sale investments	**-**	**34,187**	**65,742**	**-**	**-**	**99,929**
Investments in associates	**-**	**-**	**9,082**	**-**	**-**	**9,082**
Investment properties	**-**	**-**	**17,904**	**-**	**-**	**17,904**
Other assets	**-**	**-**	**-**	**-**	**7,916**	**7,916**
Property and equipment	**-**	**-**	**-**	**-**	**7,363**	**7,363**
Total assets	**418,916**	**917,848**	**151,565**	**402,467**	**(6,140)**	**1,884,656**
Liabilities and Equity						
Due to banks	**-**	**-**	**4,264**	**207,133**	**(4,264)**	**207,133**
Depositors' accounts	**543,912**	**156,591**	**-**	**703,920**	**(7,461)**	**1,396,962**
Other liabilities	**-**	**-**	**-**	**-**	**24,397**	**24,397**
Equity	**-**	**-**	**-**	**-**	**256,164**	**256,164**
Total liabilities and equity	**543,912**	**156,591**	**4,264**	**911,053**	**268,836**	**1,884,656**

28. SEGMENT REPORTING (CONTINUED)

2011	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Murabaha and other Islamic financing income	11,417	39,838	-	1,757	(85)	52,927
Distribution to depositors & murabaha cost	(3,383)	(436)	(342)	(9,567)	410	(13,318)
Net financing income	8,034	39,402	(342)	(7,810)	325	39,609
Net investment income/(loss)	38	1,571	(3,904)	-	-	(2,295)
Net fees and commission income	1,013	2,482	1,905	(28)	(1,381)	3,991
Share of results of associates	-	-	3,611	-	-	3,611
Net foreign exchange gain	-	-	-	858	-	858
Other income	35	-	69	-	61	165
Segment revenues	9,120	43,455	1,339	(6,980)	(995)	45,939
Segment expenses	(4,548)	(20,748)	(12,542)	13,598	(13,758)	(37,998)
Segment results	4,572	22,707	(11,203)	6,618	(14,753)	7,941

2011	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Assets						
Cash and cash equivalents	6,644	-	7,884	182,726	(5,297)	191,957
Due from banks	-	6,525	5,131	121,536	(5,131)	128,061
Islamic financing to customers	242,151	813,125	-	-	(25,192)	1,030,084
Financial assets at fair value through profit or loss	-	-	65,197	-	-	65,197
Available for sale investments	-	35,841	30,286	-	-	66,127
Investments in associates	-	-	26,449	-	-	26,449
Investment properties	-	-	25,613	-	-	25,613
Other assets	-	-	-	-	7,436	7,436
Property and equipment	-	-	-	-	6,179	6,179
Total assets	248,795	855,491	160,560	304,262	(22,005)	1,547,103
Liabilities and Equity						
Due to banks	-	-	4,105	78,987	(4,105)	78,987
Depositors' accounts	453,546	118,381	-	638,380	(7,879)	1,202,428
Other liabilities	-	-	-	-	18,520	18,520
Equity	-	-	-	-	247,168	247,168
Total liabilities and equity	453,546	118,381	4,105	717,367	253,704	1,547,103

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

2012	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Other KD'000	**Total KD'000**
Assets	**1,775,037**	**476**	**69,582**	**35,198**	**4,363**	**1,884,656**
Non-current assets (excluding financial instruments)	**21,598**	**-**	**11,585**	**-**	**-**	**33,183**
Liabilities and equity	**1,875,899**	**2,558**	**4,557**	**-**	**1,642**	**1,884,656**
Segment income/(expenses)	**43,874**	**(816)**	**(8,913)**	**25,071**	**(337)**	**58,879**

2011	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Other KD'000	Total KD'000
Assets	1,446,680	2,950	73,297	21,171	3,005	1,547,103
Non-current assets (excluding financial instruments)	9,738	657	22,436	616	-	33,447
Liabilities and equity	1,538,712	-	8,254	6	131	1,547,103
Segment income/(expenses)	48,509	(1,283)	(3,694)	2,253	154	45,939

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

29.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

29.2.1 Maximum exposure to credit risk

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2012		2011	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000	KD'000	KD'000	KD'000
Islamic financing to customers	**1,270,014**	**839,241**	1,030,084	710,623
Contingent liabilities	**195,402**	**169,415**	171,748	158,343

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.2 Credit risk (continued)

29.2.1 Maximum exposure to credit risk (continued)

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

29.2.2 Risk Concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2012 are **27.3%** (2011: 31.1%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2012	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Other KD'000	**Total KD'000**
Cash and cash equivalents (excluding cash on hand)	**146,601**	**476**	**8,286**	**143**	**4**	**155,510**
Due from banks	**240,562**	**-**	**11,063**	**-**	**-**	**251,625**
Islamic financing to customers	**1,262,506**	**-**	**4,023**	**3,485**	**-**	**1,270,014**
Available for sale investments (Sukuk)	**29,319**	**-**	**4,366**	**-**	**-**	**33,685**
Other assets (excluding software)	**6,079**	**-**	**-**	**-**	**-**	**6,079**
	1,685,067	**476**	**27,738**	**3,628**	**4**	**1,716,913**
Contingent liabilities	**177,175**	**-**	**457**	**8,026**	**-**	**185,658**
Commitments	**8,153**	**-**	**-**	**-**	**1,591**	**9,744**
Total credit risk exposure	**1,870,395**	**476**	**28,195**	**11,654**	**1,595**	**1,912,315**

2011	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Other KD'000	Total KD'000
Cash and cash equivalents (excluding cash on hand)	166,490	1,985	14,126	126	5	182,732
Due from banks	126,261	-	1,800	-	-	128,061
Islamic financing to customers	1,022,178	-	4,142	3,764	-	1,030,084
Available for sale investments (Sukuk)	31,010	-	4,154	-	-	35,164
Other assets (excluding software)	5,502	-	-	-	-	5,502
	1,351,441	1,985	24,222	3,890	5	1,381,543
Contingent liabilities	142,406	-	303	8,025	-	150,734
Commitments	18,950	-	1,507	557	-	21,014
Total credit risk exposure	1,512,797	1,985	26,032	12,472	5	1,553,291

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.2 Credit risk (continued)

29.2.2 Risk Concentration of the maximum exposure to credit risk (continued)

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2012	2011
	KD'000	KD'000
Trading	**126,359**	108,009
Manufacturing	**92,370**	89,312
Banking and other financial institutions	**415,736**	373,272
Construction	**37,390**	40,121
Real Estate	**322,045**	227,142
Retail	**410,064**	245,578
Government	**176,911**	163,732
Others	**136,038**	134,377
	1,716,913	1,381,543

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired		Past due or impaired	**Total**
	High	Standard		
	KD'000	KD'000	KD'000	**KD'000**
2012				
Cash and cash equivalents (excluding cash on hand)	**155,510**	**-**	**-**	**155,510**
Due from banks	**246,523**	**5,102**	**-**	**251,625**
Islamic financing to customers	**1,072,837**	**189,027**	**39,701**	**1,301,565**
Available for sale investments (Sukuk)	**33,685**	**-**	**-**	**33,685**
Other assets (excluding software)	**6,079**	**-**	**-**	**6,079**
	1,514,634	**194,129**	**39,701**	**1,748,464**
2011				
Cash and cash equivalents (excluding cash on hand)	182,732	-	-	182,732
Due from banks	119,736	6,525	1,800	128,061
Islamic financing to customers	789,900	240,469	34,519	1,064,888
Available for sale investments (Sukuk)	33,298	1,866	-	35,164
Other assets (excluding software)	5,502	-	-	5,502
	1,131,168	248,860	36,319	1,416,347

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.2 Credit risk (continued)

29.2.2 Risk Concentration of the maximum exposure to credit risk (continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		**Total**	
	Past due and not impaired KD'000	Past due and impaired KD'000	Past due and not impaired KD'000	Past due and impaired KD'000	**Past due and not impaired KD'000**	**Past due and impaired KD'000**
2012						
Up to 30 days	**4,643**	**-**	**5,293**	**-**	**9,936**	**-**
31 – 60 days	**2,001**	**-**	**1,916**	**-**	**3,917**	**-**
61 – 90 days	**27**	**-**	**994**	**-**	**1,021**	**-**
91 – 180 days	**-**	**-**	**-**	**804**	**-**	**804**
More than 180 days	**-**	**22,210**	**-**	**1,813**	**-**	**24,023**
	6,671	**22,210**	**8,203**	**2,617**	**14,874**	**24,827**
2011						
Up to 30 days	1,162	-	5,856	-	7,018	-
31 – 60 days	5,705	-	1,688	-	7,393	-
61 – 90 days	12,944	-	815	-	13,759	-
91 – 180 days	-	-	-	708	-	708
More than 180 days	-	6,015	-	1,426	-	7,441
	19,811	6,015	8,359	2,134	28,170	8,149

At 31 December 2012 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to reasonably **KD 18,455 thousand** (31 December 2011: KD 13,458 thousand).

29.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of prices such as foreign exchange rates and equity prices.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

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

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.3 Market risk (continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2012		2011	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**(8)**	**-**	79	-
Sterling Pound	+5	**(45)**	**-**	(10)	-
Euro	+5	**-**	**-**	(53)	-
Indonesian Rupiah	+5	**1,519**	**60**	-	847
Sudanese Pound	+5	**13**	**265**	-	347
Japanese Yen	+5	**2**	**-**	4	-
Others	+5	**9**	**-**	(48)	-

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2012 would have increased equity by **KD 2,427 thousand** (31 December 2011: an increase of KD 664 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 1,698 thousand** (31 December 2011: an increase of KD 1,715 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

29.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.4 Liquidity risk (continued)

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	**Total KD'000**
2012					
Assets					
Cash and cash equivalents	**169,530**	**-**	**-**	**-**	**169,530**
Due from banks	**171,271**	**72,348**	**8,006**	**-**	**251,625**
Islamic financing to customers	**548,906**	**213,996**	**96,296**	**410,816**	**1,270,014**
Financial assets at fair value through profit or loss	**1,181**	**-**	**-**	**50,112**	**51,293**
Available for sale investments	**-**	**-**	**2,111**	**97,818**	**99,929**
Investments in associates	**-**	**-**	**-**	**9,082**	**9,082**
Investment properties	**-**	**-**	**-**	**17,904**	**17,904**
Other assets	**2,100**	**-**	**3,979**	**1,837**	**7,916**
Property and equipment	**-**	**-**	**-**	**7,363**	**7,363**
Total assets	**892,988**	**286,344**	**110,392**	**594,932**	**1,884,656**
Liabilities and Equity					
Due to banks	**158,594**	**7,772**	**2,117**	**38,650**	**207,133**
Depositors' accounts	**935,043**	**196,004**	**263,423**	**2,492**	**1,396,962**
Other liabilities	**10,289**	**-**	**7,568**	**6,540**	**24,397**
Equity	**-**	**-**	**-**	**256,164**	**256,164**
Total liabilities and equity	**1,103,926**	**203,776**	**273,108**	**303,846**	**1,884,656**

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
2011					
Assets					
Cash and cash equivalents	191,957	-	-	-	191,957
Due from banks	96,658	31,403	-	-	128,061
Islamic financing to customers	494,101	213,485	65,475	257,023	1,030,084
Financial assets at fair value through profit or loss	3,849	-	-	61,348	65,197
Available for sale investments	26,085	-	4,178	35,864	66,127
Investments in associates	-	-	-	26,449	26,449
Investment properties	-	-	-	25,613	25,613
Other assets	2,793	-	2,988	1,655	7,436
Property and equipment	-	-	-	6,179	6,179
Total assets	815,443	244,888	72,641	414,131	1,547,103
Liabilities and Equity					
Due to banks	40,294	-	-	38,693	78,987
Depositors' accounts	711,966	246,627	237,503	6,332	1,202,428
Other liabilities	7,138	-	5,616	5,766	18,520
Equity	-	-	-	247,168	247,168
Total liabilities and equity	759,398	246,627	243,119	297,959	1,547,103

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.4 Liquidity risk (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

2012	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	**Total KD'000**
Financial Liabilities					
Due to banks	**158,636**	**7,798**	**2,135**	**40,844**	**209,413**
Depositors' accounts	**935,592**	**196,760**	**265,533**	**2,569**	**1,400,454**
	1,094,228	**204,558**	**267,668**	**43,413**	**1,609,867**
2011					
Financial Liabilities					
Due to banks	40,284	-	-	41,426	81,710
Depositors' accounts	712,568	247,951	240,074	6,536	1,207,129
	752,852	247,951	240,074	47,962	1,288,839

29.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial /reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the CBK instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

29.6 Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values at 31 December due to the relatively short-term maturity of the instruments.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

2012	**Level 1 KD'000**	**Level 2 KD'000**	**Total KD'000**
Financial assets held for trading	**155**	**-**	**155**
Financial assets at fair value through profit or loss	**1,026**	**50,112**	**51,138**
Available for sale investments	**489**	**99,440**	**99,929**
	1,670	**149,552**	**151,222**

2011	Level 1 KD'000	Level 2 KD'000	Total KD'000
Financial assets held for trading	167	-	167
Financial assets at fair value through profit or loss	3,682	61,348	65,030
Available for sale investments	-	66,127	66,127
	3,849	127,475	131,324

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

29.7 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong 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.

During the year, the Group has complied in full with all its externally imposed capital requirements.

The Group's regulatory capital and capital adequacy ratios are shown below:

	2012	2011
	KD'000	KD'000
Tier 1 capital		
Share capital	**174,824**	174,824
Share premium	**62,896**	62,895
Proposed bonus shares	**8,741**	-
Treasury shares	**(1,024)**	(1,024)
Statutory reserve	**1,891**	842
Voluntary reserve	**1,813**	802
Share based payment reserve	**537**	253
Retained earnings	**5,424**	6,381
Non-controlling interests	**2,514**	2,923
Deductions from tier 1 capital	**(3,246)**	(13,040)
	254,370	234,856
Tier 2 capital		
Fair value and foreign currency translation reserves	**(3,334)**	(1,628)
General provision	**12,380**	10,928
Deductions from tier 2 capital	**(3,246)**	(13,040)
	5,800	(3,740)
Total regulatory capital	**260,170**	231,116
Risk-weighted assets	**1,066,494**	922,151
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**24.39%**	25.06%
Total tier 1 capital expressed as a percentage of risk - weighted assets	**23.85%**	25.47%

30. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group's classification of each class of financial assets and liabilities

	Designated as at fair value KD'000	Held for trading KD'000	Loans & receivables KD'000	Available for sale KD'000	Other amortized cost KD'000	**Total carrying amount KD'000**
2012						
Cash and cash equivalents	**-**	**-**	**150,996**	**-**	**18,534**	**169,530**
Due from banks	**-**	**-**	**251,625**	**-**	**-**	**251,625**
Islamic financing to customers	**-**	**-**	**1,270,014**	**-**	**-**	**1,270,014**
Financial assets at fair value through profit or loss	**51,138**	**155**	**-**	**-**	**-**	**51,293**
Available for sale investments	**-**	**-**	**-**	**99,929**	**-**	**99,929**
	51,138	**155**	**1,672,635**	**99,929**	**18,534**	**1,842,391**
Due to banks	**-**	**-**	**-**	**-**	**207,133**	**207,133**
Depositors' accounts	**-**	**-**	**-**	**-**	**1,396,962**	**1,396,962**
	-	**-**	**-**	**-**	**1,604,095**	**1,604,095**

	Designated as at fair value KD'000	Held for trading KD'000	Loans & receivables KD'000	Available for sale KD'000	Other amortized cost KD'000	Total carrying amount KD'000
2011						
Cash and cash equivalents	-	-	171,078	-	20,879	191,957
Due from banks	-	-	128,061	-	-	128,061
Islamic financing to customers	-	-	1,030,084	-	-	1,030,084
Financial assets at fair value through profit or loss	65,030	167	-	-	-	65,197
Available for sale investments	-	-	-	66,127	-	66,127
	65,030	167	1,329,223	66,127	20,879	1,481,426
Due to banks	-	-	-	-	78,987	78,987
Depositors' accounts	-	-	-	-	1,202,428	1,202,428
	-	-	-	-	1,281,415	1,281,415

31. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank amounted to **KD 70,246 thousand** (31 December 2011: KD 59,241 thousand).

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassifications did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented; accordingly a third statement of financial position is not presented.