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Annual Report 2011



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ  
إِنَّ اللَّهَ هُوَ الرَّزَّاقُ ذُو الْقُوَّةِ الْمَتِينُ  
صدق الله العظيم

## Contents

Board of Directors	6
Fatwa & Shari'a Supervisory Board	7
Executive Management	7
Chairman's Message	8
2011 Performance Highlights	10
Risk Management	13
Report of Fatwa & Shari'a Supervisory Board	30
Consolidated Financial Statements and Independent Auditors' Report	32

H.H. Sheikh  
Sabah Al-Ahmad Al-Jaber Al-Sabah  
Emir of the State of Kuwait



H.H. Sheikh  
Nawaf Al-Ahmad Al-Jaber Al-Sabah  
Crown Prince of the State of Kuwait



H.H. Sheikh  
Jaber Al-Mubarak Al-Hamad Al-Sabah  
Prime Minister of the State of Kuwait



## Vision

### **"Together ...goals are achievable"**

We aim to become the Islamic Bank of choice within Kuwait, and to take a prominent position both on the local and regional levels.

We will create a benchmark institution combining innovative solutions and up-to-date products and services with standing partnerships within our community.

## Values

We aim to create value for our Customers, Shareholders and Employees who are the core of our interest by following the distinguished approach of Boubyan Bank in all what we do:

### **Compliance with Shari'ah principles:**

We will offer professional Islamic banking services that provide flexible and innovative solutions to our customers' needs. We will create a team-driven culture within the bank and make a positive contribution to the wider community.

### **Providing distinguished, excellent services:**

We aim to exceed customer expectations of quality, and to build and promote trust with them by catering to all their requirements and fulfilling their needs.

### **Developing our human resources:**

We will embrace talented people and pay continuous attention to enhancing their skills using the latest technologies and expertise in the banking industry.

# Thanks To Our Clients

## 4 awards in a year



## Board of Directors



**Mr. Ibrahim Ali Al-Qadhi**  
Chairman



**Mr. Hazim Ali Al-Mutairi**  
Board Member



**Mr. Abdulaziz Abdullah Dakheel Al-Shaya**  
Board Member



**Mr. Mahmoud Y. Al-Fulaij**  
Board Member



**Mr. Yousef Abdullah Al-Qatami**  
Board Member



**Mr. Adel Abdul Wahab Al-Majed**  
Vice-chairman & Managing Director



**Mr. Ahmed Yousef Al-Saqer**  
Board Member



**Mr. Farid Soud Al-Fowzan**  
Board Member



**Mr. Waleed Mishari Al-Hamad**  
Board Member



## Fatwa & Shari'a Supervisory Board

<b>Sheikh Dr. Ajeel Jasim Al-Nashmi</b>	Chairman
<b>Sheikh Dr. Mohammed Abdulrazaq Al-Tabtabae</b>	Vice Chairman
<b>Sheikh Dr. Abdulazeez Al-Qasar</b>	Board Member
<b>Sheikh Dr. Esam Khalaf Al-Anezi</b>	Board Member
<b>Sheikh Dr. Saud Mohamed Al-Rabea</b>	Board Member

## Executive Management

<b>Adel Abdul Wahab Al Majed</b>	Vice Chairman & Managing Director
<b>Abdulla AlNajran AlTuwaijri</b>	General Manager – Consumer Banking Group
<b>Adel Abdullah Al Hammad</b>	General Manager Human Resources Group
<b>Waleed Khalid Al-Yaqout</b>	General Manager Administration Group
<b>Waleed Eisa Al-Hasawi</b>	General Manager Information Technology Group
<b>Leslie James Rice</b>	General Manager - Risk Management
<b>Abdul Rahman Hamza</b>	Chief Audit Executive
<b>Mohamed Ibrahim Ismail</b>	Head of Financial Group
<b>Mukkulam Jamal Jaffar</b>	Assistant General Manager - Treasury

## Chairman's Message

On the occasion of the passing of another year in Boubyan Bank's march, it's a pleasure for me to present to you, for myself and on behalf of the venerable Board members, the Annual Report for year 2011, which is considered one of the most distinguished years in the Bank's short history due to the achievements realized thanks, after Allah's Help, to our human resources who, as usual, stood up to their responsibilities, and also to our valued shareholders who provided us with all required support and backing.

You may agree with me that year 2011 was an exceptional year in all measures due to the developments witnessed during it, whether on the local, regional or even international level, as a result of the political unrest that impacted work environment and business sector, which greatly suffered in the wake of these unexpected developments.

### Global Economy

Casting a quick look over the developments of global economic conditions during last year, we find that advanced economies demonstrated what may be called initial signs of economic recovery, which started in year 2010 when the economic growth rate of these countries reached 3.2% and continued during most of the periods of year 2011.

According to IMF's report, there was a recession in the prospects of global growth combined with a sharp rise in risks during Q4 of year 2011 amidst the new critical stage undergone by the Eurozone.

Quoting the same report, projections indicate a slowdown in the global activity as most advanced economies strive to avoid return to stagnation.

Meanwhile, a slowdown in activity is observed in the emerging and developing economies following the previous rapid pace, the fact that imposes more challenges on the efforts of policy makers in the Eurozone to seriously strive towards a solution for the current crisis.

IMF estimates project that activity will increase in advanced economies at an average of 1.5% in the period 2012-2013, which is a very slow rate with

regard to the deep stagnation of 2009, and is then inadequate to produce a tangible change in the hiking unemployment rates.

As for the MENA region in general, the year 2011 was a different year due to the various political changes and transformations witnessed in it, which impacted the prevailing economic climate, and was reflected in a way or another on Gulf and Kuwait economies.

Despite these developments, Gulf economies remained, to a great extent, immune from the adverse effects of these transformations, greatly benefiting from the rise in oil prices in global markets during 2011 at around 31%, which led to increasing income and solidified GCC governments' abilities to achieve remarkable progress in their development plans and realized their economic and social objectives.

In addition, IMF estimates indicate that the GDP growth rate for GCC countries recorded around 7.2% in 2011, compared to around 4% for MENA region.

### Kuwaiti Economy

On the local level, the overall political and economic policies of the State of Kuwait were directed towards addressing different risks and challenges, as IMF estimates show that Kuwaiti economy realized a growth rate of 5.7% in 2011, and the State's general budget is projected to post a surplus of around 23.6% of GDP, as well as a current account surplus of 33.5% of GDP.

Generally speaking, the milestones of political and economic policies and programs of the State of Kuwait were represented in the Development Plans that encompass many visions and objectives and based on certain key pillars, such as working to raise economic growth rates, enhancing the effectiveness of the private sector's role in boosting economic activity, realizing human development and providing work opportunities.

In a relevant context, the government strives towards the end of making Kuwait a financial and commercial hub, according to an outlook that is consistent with development strategic objectives till year 2035, with the participation of all active parties in the society.

### **The Bank's performance in 2011**

Despite these circumstances and their reflections on the Kuwaiti banking sector, our Bank was able, Thanks to Allah, to realize positive results recording a net profit of KD 8 million, compared to KD 6 million in 2010, at a growth rate of 31%, reflecting an increase in the Bank's operating profit at 24% to KD 30.4 million, while continuing to take general and precautionary provisions to reinforce the Bank's financial position.

Meanwhile, net finance income increased to KD 39.6 million during year 2011, compared to KD 30.3 million for year 2010; growing by 31%, in addition to the increase in customers' deposits to KD 1,202 million, compared to KD 941 million by the end of December 2010; growing by 28%.

During 2011, the Bank's market share of finance rose to 4.1% in addition to a rise in its share of deposits to 3.8% despite the challenges undergone by different economic sectors. The Bank's total assets as by the end of December 2011 amounted to KD 1,552 million, compared to KD 1,316 million as by the end of December 2010, boosting up by 18%.

In addition, the Bank's total equity increased to KD 247 million, compared to KD 240 million; boosting the Bank's Capital Adequacy Ratio to 25% against 12%, being the minimum required ratio stipulated by the Central Bank of Kuwait.

During 2011, Boubyan Bank continued to provide support to society as part of its social responsibility, directing this support to the different sectors and classes of society, especially the youth and people with special needs out of its sublime mission as a bank operating in compliance with the Islamic Shari'ah.

We can say that the fruit of these achievements made during the mentioned year was the Bank's winning of four distinguished awards from unbiased, professional well-known institutions, which closely monitored the developments witnessed in the Bank and its achievements that placed it in the list of the best, whether in terms of products and services provided to the different sections or customer service excellence.

### **Gratitude & Appreciation**

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 His Highness, the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah Protect him as well as to His Highness, 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, 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 CBK's executives, headed by His Excellency, Ex-Governor, Sheikh Salem Abdul-Aziz Al-Sabah, who saved no effort to take the actions required to support the different sectors, basically the banking sector, and whose absence from this position is a great loss for Kuwait in general, and its national economy in particular, paying to Allah, the Almighty, to bestow upon him health and wellness.

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 Supervisory Board headed by Sheikh Ajeel Jassem Al-Nashmi, for their great efforts representing the guideline 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 in order to stay ahead of banks.

May Allah Grant us success!

**Ibrahim Ali Al-Qadhi**  
Chairman

## Performance Report 2011

During year 2011, the world's economy has been on a roller coaster. Its ups and downs have affected Kuwait's economy and the banking sector in particular, especially the operating activities of various economic sectors.

However, Boubyan Bank has continued with its organizational changes put into action in mid 2009, which led to a new corporate strategy focused on the banking basics: corporate and consumer banking, as well as private banking.

In 2011, the Bank provided the best products and services according to several international assessments by research firms, and also picked up four banking awards.

The Bank succeeded in getting closer to its customers and reaching different areas of Kuwait by expanding its branch network and developing its products. Adding three new branches in Ahmadi, Qasr and G1 in the Ministry of Defense Building boosted the total number of branches to 20.

Moreover, Boubyan Mobile Banking Service was launched. Despite Boubyan not being the first to introduce such a service in the local market, it was the first to offer such a wide array of banking services across different mobile phone platforms.

The expansion and development plan continued its progress through the opening of new outlets and establishment of additional presence of sales teams at auto dealerships, shopping malls and exhibitions. In addition, the Bank participated in many specialized fairs and various events.

Without a doubt, the sincere efforts and excellence of Personal Banking Service executives in providing first-class service to the Private and Platinum Banking customers, has borne its fruits resulting in the solicitation of new high net worth customers and a remarkable expansion of its customer base.

In order to provide products and services with special characteristics that best fulfill customers' needs, 'WOW' Youth Account has been added. Moreover, Q2 of 2011 witnessed the launch of 'Salary Accounts' through which special offers and benefits responding to the needs of all customers were presented. In addition, 'Hayyak' fresh graduates account, 'Wiiyyak' account that caters to the aspirations of the householder, and 'Anty' ladies' account were developed, as well as the introduction of a new distinguished products: education finance.

Boubyan Bank solidified its distinction with the service of immediate issuance of banking cards that allows customers to obtain credit and ATM cards within minutes. Also, Boubyan Bank was the first to launch the Islamic online brokerage service for GCC equity markets, and to give customers new choices for deposit and investment by offering Boubyan Money Market Fund.

### **The bank of choice for companies**

Boubyan Bank aims to be the bank of choice for companies that wish to deal with Islamic banks. The organizational structure of corporate banking and treasury has been redesigned in line with the new strategy based on diversifying banking relationships to encompass all economic sectors, while focusing on productive sectors and targeting medium to large-sized companies to achieve the best banking service.

Despite the current fluctuations, during 2011, Boubyan Bank recorded sound growth in its credit portfolio of 12.44%, considered among the top rates in the domestic market, due to the attraction of companies and institutions known for their creditworthiness, and the strict adherence to the highest credit quality standards.

The Structured and Syndicated Finance Department plays a key role in providing new finance instruments, with a focus on growth in syndicated finance to productive companies and development plan projects.

In 2011, the department arranged a syndicated finance transaction for Boubyan Petrochemical Company by successfully gathering a number of local and international banks to participate in this transaction, raising its value to US \$130 million.

The Bank led an Islamic banking syndicate of KD 48 million for the Saudi Al-Khorayef Group, to implement the first phase of the New Gathering Center 16 Project in west Kuwait for Kuwait Oil Company.

#### **Our human resources .. the secret to our success**

The year 2011 witnessed an expansion in the base of certified trainees, both on the local and international levels. In addition, the Bank's entire staff underwent retraining and qualification through an integrated training system, and the Bank completed the preparation of career path plans for each position in the organizational structure to create a highly professional environment.

In line with the national labor focused strategy, the Bank now has one of the highest Kuwaitization rates among all banks in Kuwait, with a national labor ratio of above 64%.

Boubyan Bank continued its social and philanthropic contributions with donations to Somalia through official Kuwaiti organizations, as well as supporting and sponsoring various events and activities within Kuwaiti society.

As for the Bank's new headquarters, we are collecting the required information for the project. We also seek to provide additional locations for branches, some of which have already been established in residential areas. Moreover, we are in the process of developing a concept for the new branches to be established in 2012.

The major focus for the Information Technology Group during 2011 was to ensure all of the Bank's systems are aligned to the changing business and regulatory

requirements. The group has implemented major enhancements to the banking system supporting Core Banking, IBAN, Anti-Money Laundering, Mobile Banking, Corporate Internet Banking, Corporate Trade Finance Online, Cash Deposit through ATM's, instant issuance of debit and credit cards, and Management Information Systems.

New automation projects that commenced this year include Balanced Scorecards for sales, fully automated provisioning, new Internet Banking for consumers, new ATM/POS Switch, Debt Collection system, Budgeting and Planning, Head Count planning, and ITIL which are under various stages of implementation.

#### **Operations, Risk Management, Audit & Governance**

During 2011 the Operations Group continued its campaign to streamline, automate and optimize the operational performance to reduce errors, improve workflow, increase productivity and reduce risk. This was accomplished using technology and creative thinking to work towards a paperless and Straight Through Processing environment.

Risk Management continued its enduring efforts to assess, measure and manage all exposures by reviewing the framework in line with the Bank's strategy and the related regulations, as well as the volatile economic conditions. For this purpose, the Risk Management Department developed control and reporting systems that assist in indentifying and managing risks in an efficient and timely manner.

Chief among the said efforts was developing a risk policy and measurement system in line with the Bank's strategy and the development of strategic and operational reporting.

In accordance with the Central Bank of Kuwait Instructions, Risk Management has successfully implemented Internal Capital Adequacy Assessment Process "ICAAP", which assured capital adequacy



## Performance Report 2011

against the Bank's exposures. In addition, the Bank successfully conducted stress testing, which revealed the sound capital base of the Bank in the event of a severe scenario.

Risk Management has also applied more effective regulatory standards in the in-house operating environment, improved Obligor Rating System and implemented various policies that assist in managing operating risks.

Internal Audit continued to provide assurance in an independent and impartial manner, offering consultation on all banking activities, operations, branches, IT systems, applications and infrastructure. In addition, Internal Audit enhanced the Bank's operations by evaluating and improving risk management, control systems and ensure of compliance with corporate governance principles, following up with corrective actions on a regular basis, ensuring compliance with CBK instructions, policies and procedures and assessing the effectiveness of the Bank's internal control systems and subsidiaries

### Shari'a Supervision Division

The Shari'a Supervision Division is a vital part of any Islamic institution that independently reviews all contracts and transactions to ensure they are in conformity with the principles and rulings of the Islamic Shari'a, as approved by the Shari'a Supervisory Board of Boubyan Bank.

During the reported period, our Shari'a Supervisory Division has reviewed all contracts and forms used in the Bank, as well as conducted a quarterly audit on the Bank's contracts and transactions, reviewing and examining contracts between the Bank and internal and external companies and institutions. Moreover, the Division assumes the duty of training and educating staff on Shari'a principles and spreading Shari'a awareness in society with respect to modern Islamic transactions.

### Boubyan Capital Investment & Boubyan Takaful Insurance

In 2011, Boubyan Capital Investment Company, the Bank's investment arm, became fully operational. The board and executive management of Boubyan Capital focused on restructuring the Company in line with the Bank's strategy. The Company continues to oversee the asset management business and manage the Bank's investments.

Notable achievements include launching the first Islamic online brokerage service in Kuwait that allows customers to trade online in all of the GCC equity markets. In addition, Boubyan Capital launched a KD denominated Money Market Fund that gives customers a liquidity tool to manage their excess cash. In 2012, the Company plans to launch a number of new funds once it obtains approval from the Capital Markets Authority.

During the year, Boubyan Takaful Insurance Company has been restructured for a new launch in 2012. The Company signed an agreement with Protiviti Advisory Services to help support the development of their Enterprise Risk Management framework.

The Company also entered into a distribution agreement with Boubyan Bank to promote and offer Takaful Insurance products and services through the Bank's various channels.

Boubyan Takaful Insurance strives to increase its distribution capability in 2012 and offer a first-class customer experience. Meanwhile, Boubyan Takaful Insurance expansion plans also include launching a number of new and innovative Takaful insurance solutions through a number of e-channels.

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



RISK MANAGEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2011

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### 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	2011 proportion of ownership interest and voting power %	2010 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Co. KSC (Closed)	Kuwait	57.63	56.78	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	100.00	100.00	Islamic investments



## CAPITAL STRUCTURE

The Group maintains an actively managed capital base 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 had complied in full with all its externally imposed capital requirements.

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 credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group's regulatory capital position at 31 December was as follows:

	2011	2010
	KD'000	KD'000
<b>Tier 1 capital</b>		
Share capital	174,824	174,824
Share premium	62,895	87,728
Treasury shares	(1,024)	-
Statutory reserve	842	3,913
Voluntary reserve	802	3,591
Share based payment reserve	253	-
Retained earnings / (accumulated loss)	6,381	(32,336)
Non-controlling interest	2,923	1,920
Deductions from tier 1 capital	(13,040)	(11,018)
	<u>234,856</u>	<u>228,622</u>
<b>Tier 2 capital</b>		
Fair value reserve & foreign currency translation reserve	(1,628)	(599)
General provision	10,928	9,667
Deductions from tier 2 capital	(13,040)	(11,018)
	<u>(3,740)</u>	<u>(1,950)</u>
<b>Total regulatory capital</b>	<u>231,116</u>	<u>226,672</u>
Risk-weighted assets	<u>922,151</u>	<u>821,846</u>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	<u>25.06%</u>	<u>27.58%</u>
Total tier 1 capital expressed as a percentage of risk-weighted assets	<u>25.47%</u>	<u>27.82%</u>

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

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

#### *Credit risk*

The minimum capital charge in respect of credit risk as at 31 December 2011 was **KD 102,233 thousand** (2010: KD 91,141 thousand) as detailed below:

#### 31 December 2011

	Gross credit exposure	Risk-weighted assets	Capital charge
	KD'000	KD'000	KD'000
Cash	9,225	-	-
Claims on sovereigns	147,384	-	-
Claims on banks	169,929	26,461	3,175
Claims on corporations	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 finance clients	214,147	129,607	15,553
Sukuk	32,964	20,648	2,478
Other exposures	111,148	84,469	10,136
	<b>1,626,677</b>	<b>851,948</b>	<b>102,233</b>

#### 31 December 2010

	Gross credit exposure	Risk-weighted assets	Capital charge
	KD'000	KD'000	KD'000
Cash	7,751	-	-
Claims on sovereigns	30,443	-	-
Claims on banks	256,845	38,590	4,631
Claims on corporations	504,617	336,821	40,419
Regulatory retail exposure	125,684	90,090	10,811
Past due exposures	5,786	2,102	252
Investment property	33,588	67,176	8,061
Investment and finance clients	254,727	112,196	13,464
Sukuk	31,503	24,170	2,900
Other exposures	114,793	88,356	10,603
	<b>1,365,737</b>	<b>759,501</b>	<b>91,141</b>

Other exposures above includes an amount of **KD 22,438** (2010: KD 13,830 thousand) representing the amount of general provision in excess of the 1.25% allowed as a contribution towards Tier 2 capital.

**PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (CONTINUED)*****Market risk***

The minimum capital charge in respect of market risk arising from the self-financed exposures as at 31 December 2011 was **KD 2,054 thousand** (2010: KD 1,938 thousand) as detailed below:

	<b>2011</b>	2010
	<b>KD'000</b>	KD'000
Foreign exchange risk	<b>2,054</b>	1,938
Multiplier	<b>8.333</b>	8.333
Risk weighted assets	<b>17,116</b>	16,149

***Operational risk***

The minimum capital charge in respect of operational risk as at 31 December 2011 was **KD 6,371 thousand** (2010: 5,544 thousand). This capital charge was computed using basic indicator approach.

The following table summarises amount of operation risk exposure and related capital requirements:

	<b>2011</b>	2010
	<b>KD'000</b>	KD'000
Average gross income	<b>42,473</b>	36,961
Multiplier	<b>8.333</b>	8.333
	<b>353,928</b>	307,996
Eligible portion for the purpose of calculation	<b>15%</b>	15%
Total operational risk exposure	<b>53,089</b>	46,199

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT

The philosophy of risk management of the Group is to ensure an integrated and effective Group wide risk management, where all risks are timely identified, quantified and managed in order to achieve an optimal risk-reward profile of the Group.

The risk management of the Group has a policy frame work in line with CBK guidelines and applicable best practices of IFSB & Basel committee approved by the Group's Board of Directors.

An independent risk management function is in place that ensures the risks are identified, measured, mitigated, monitored, reported and controlled effectively. Risk Management Committee (RMC) has been established which monitors the consolidated risk position of the Group in light of the approved Risk Management Committee Charter.

The risk which the Group is exposed to, mainly includes:

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

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss.

The Group has approved financing policy (by the Board) and Financing Committee Charter which provides guiding principle for the financing business of the Group. Credit risk function of the bank has in place various measures and controls for risk mitigation of the business activity exposed to credit risk, such as all the credit proposals are reviewed individually risk in order to give the finance approving authorities an independent risk based reviews. Financing proposals are segregated into small ticket proposals and big ticket proposals; the Board Executive Committee (BEC) is the approving authority for all the big ticket proposals with certain financing limits.

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.

**RISK MANAGEMENT (CONTINUED)****Credit risk (Continued)**

The Group's gross credit exposures are detailed below:

**31 December 2011**

	<b>Gross credit exposure</b>	<b>Self-funded exposure</b>	<b>Funded through investments accounts exposure</b>
	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>
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 corporations	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 finance clients	214,147	82,338	131,809
Sukuk	32,964	32,964	-
Other exposures	111,148	102,629	8,519
	<b>1,626,677</b>	<b>767,384</b>	<b>859,293</b>

**31 December 2010**

	<b>Gross credit exposure</b>	<b>Self-funded exposure</b>	<b>Funded through investments accounts exposure</b>
	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>
Cash	7,751	3,361	4,390
Claims on sovereigns	30,443	13,200	17,243
Claims on banks	256,845	114,634	142,211
Claims on corporations	504,617	244,098	260,519
Regulatory retail exposure	125,684	54,496	71,188
Past due exposures	5,786	2,543	3,243
Investment property	33,588	33,588	-
Investment and finance clients	254,727	110,449	144,278
Sukuk	31,503	31,503	-
Other exposures	114,793	89,665	25,128
	<b>1,365,737</b>	<b>697,537</b>	<b>668,200</b>

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

The Group's quarter-based average credit exposure for the period ended 31 December 2011 comprises the following:

#### 31 December 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 corporations	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 finance clients	217,528	84,248	133,280
Sukuk	30,803	30,803	-
Other exposures	124,115	97,277	26,838
	<u>1,482,321</u>	<u>662,686</u>	<u>819,635</u>

#### 31 December 2010

	Average credit exposure	Self-funded exposure	Funded through investments accounts exposure
	KD'000	KD'000	KD'000
Cash	6,059	2,621	3,438
Claims on sovereigns	60,433	26,921	33,512
Claims on banks	212,125	92,897	119,228
Claims on corporations	462,253	226,857	235,396
Regulatory retail exposure	97,459	41,975	55,484
Past due exposures	7,301	3,160	4,141
Investment property	34,991	34,991	-
Investment and finance clients	226,301	97,557	128,744
Sukuk	36,398	36,398	-
Other exposures	118,811	89,788	29,023
	<u>1,262,131</u>	<u>653,165</u>	<u>608,966</u>

**RISK MANAGEMENT (CONTINUED)****Credit risk (Continued)**

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

**31 December 2011**

	<b>Kuwait and The Middle East</b>	<b>North America</b>	<b>Western Europe</b>	<b>Other</b>	<b>Total</b>
	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>
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 corporations	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 finance clients	210,298	-	3,849	-	214,147
Sukuk	28,810	-	-	4,154	32,964
Other exposures	77,634	195	26,447	6,872	111,148
	<b>1,536,584</b>	<b>852</b>	<b>69,366</b>	<b>19,875</b>	<b>1,626,677</b>

**31 December 2010**

	<b>Kuwait and The Middle East</b>	<b>North America</b>	<b>Western Europe</b>	<b>Other</b>	<b>Total</b>
	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>
Cash	7,751	-	-	-	7,751
Claims on sovereigns	30,443	-	-	-	30,443
Claims on banks	238,885	-	17,960	-	256,845
Claims on corporations	500,257	-	-	4,360	504,617
Regulatory retail exposure	125,684	-	-	-	125,684
Past due exposures	1,191	-	2,250	2,345	5,786
Investment property	1,788	4,179	26,983	638	33,588
Investment and finance clients	246,596	-	8,131	-	254,727
Sukuk	29,399	-	-	2,104	31,503
Other exposures	85,351	404	26,740	2,298	114,793
	<b>1,267,345</b>	<b>4,583</b>	<b>82,064</b>	<b>11,745</b>	<b>1,365,737</b>

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

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

#### 31 December 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 corporations	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 finance clients	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
	<u>819,658</u>	<u>310,288</u>	<u>75,676</u>	<u>421,055</u>	<u>1,626,677</u>

#### 31 December 2010

	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	7,751	-	-	-	7,751
Claims on sovereigns	30,443	-	-	-	30,443
Claims on banks	248,480	8,365	-	-	256,845
Claims on corporations	420,410	48,756	20,428	15,023	504,617
Regulatory retail exposure	1,137	-	-	124,547	125,684
Past due exposures	5,786	-	-	-	5,786
Investment property	-	-	2,800	30,788	33,588
Investment and finance clients	181,973	27,372	36,169	9,213	254,727
Sukuk	-	-	3,002	28,501	31,503
Other exposures	36,956	-	1,192	76,645	114,793
	<u>932,936</u>	<u>84,493</u>	<u>63,591</u>	<u>284,717</u>	<u>1,365,737</u>



**RISK MANAGEMENT (CONTINUED)****Credit risk (Continued)****Collaterals management**

Effective risk mitigation is fundamental to the strategy of the Group. In order to mitigate its credit risk, Group exclusively deals with the financial institutions having a high credit rating and applies minimal concentration approach towards other counter parties 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 main types of collateral obtained are as follows:

- Properties
- Mortgaged shares
- Bank guarantees
- Fixed deposits
- Sukuk

The above collaterals are regularly marked to market (MTM). Emphasis is given on the concentration level of the collateral and its adherence with the collateral policy.

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

#### Collaterals management (Continued)

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

#### 31 December 2011

	Gross credit exposure	Eligible collaterals		Net credit exposure
		Financial collaterals	Other collaterals	
	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 corporations	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 finance clients	214,147	34,450	54,879	124,818
Sukuk	32,964	-	-	32,964
Other exposures	111,148	-	-	111,148
	<u>1,626,677</u>	<u>114,131</u>	<u>138,176</u>	<u>1,374,370</u>

#### 31 December 2010

	Gross credit exposure	Eligible collaterals		Net credit exposure
		Financial collaterals	Other collaterals	
	KD'000	KD'000	KD'000	KD'000
Cash	7,751	-	-	7,751
Claims on sovereigns	30,443	-	-	30,443
Claims on banks	256,845	-	-	256,845
Claims on corporations	504,617	46,498	2,037	456,082
Regulatory retail exposure	125,684	-	-	125,684
Past due exposures	5,786	-	-	5,786
Investment property	33,588	-	-	33,588
Investment and finance clients	254,727	29,735	120,642	104,350
Sukuk	31,503	-	-	31,503
Other exposures	114,793	-	-	114,793
	<u>1,365,737</u>	<u>76,233</u>	<u>122,679</u>	<u>1,166,825</u>

**RISK MANAGEMENT (CONTINUED)****Credit risk (Continued)****Specific and general provisions**

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:

<b>Category</b>	<b>Criteria</b>
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.

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

##### Specific and general provisions (Continued)

The Group's impaired portfolio as at 31 December 2011 was **KD 8,149 thousand** (2010: KD 7,497 thousand) against which a specific provision of **KD 2,673 thousand** (2010: KD 1,711) has been made, as detailed below.

##### 31 December 2011

	Impaired loans	Specific provision	Net Balance
	KD'000	KD'000	KD'000
Claims on banks	1,800	-	1,800
Claims on corporations	4,224	548	3,676
Regulatory retail exposure	2,125	2,125	-
	<b>8,149</b>	<b>2,673</b>	<b>5,476</b>

##### 31 December 2010

	Impaired loans	Specific provision	Net Balance
	KD'000	KD'000	KD'000
Claims on banks	2,250	-	2,250
Claims on corporations	3,519	266	3,253
Regulatory retail exposure	1,728	1,445	283
	<b>7,497</b>	<b>1,711</b>	<b>5,786</b>

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

##### 31 December 2011

	Impaired loans	Specific provision	Net Balance
	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
	<b>8,149</b>	<b>2,673</b>	<b>5,476</b>

##### 31 December 2010

	Impaired loans	Specific provision	Net Balance
	KD'000	KD'000	KD'000
Kuwait and The Middle East	2,902	1,711	1,191
Western Europe	2,250	-	2,250
Other	2,345	-	2,345
	<b>7,497</b>	<b>1,711</b>	<b>5,786</b>

## RISK MANAGEMENT (CONTINUED)

### Credit risk (Continued)

#### Specific and general provisions (Continued)

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 Credit Provisions Committee.

The Group's total provision as at 31 December 2011 was **KD 36,041 thousand** (2010: KD 25,208 thousand) inclusive of a general provision of **KD 33,368 thousand** (2010: KD 23,497 thousand) as detailed below:

#### 31 December 2011

	Provision balance 01/01/2011	Provision Provided /(released) during the year	Provision (written off) / Recovered and movements on foreign currencies during the year	Provision balance 31/12/2011
	KD'000	KD'000	KD'000	KD'000
Claims on corporations	7,847	1,373	-	9,220
Regulatory retail exposure	1,015	494	-	1,509
Investment and finance clients	2,111	440	-	2,551
Un-allocated general provision	12,524	7,564	-	20,088
Past due exposures	1,711	(3,377)	4,339	2,673
	<u>25,208</u>	<u>6,494</u>	<u>4,339</u>	<u>36,041</u>

#### 31 December 2010

	Provision balance 01/01/2010	Provision Provided during the year	Provision (written off) / Recovered and movements on foreign currencies during the year	Provision balance 31/12/2010
	KD'000	KD'000	KD'000	KD'000
Claims on corporations	6,236	1,611	-	7,847
Regulatory retail exposure	613	402	-	1,015
Investment and finance clients	1,298	813	-	2,111
Un-allocated general provision	2,654	9,870	-	12,524
Past due exposures	54,122	(3,607)	(48,804)	1,711
	<u>64,923</u>	<u>9,089</u>	<u>(48,804)</u>	<u>25,208</u>

## Risk Management

FOR THE YEAR ENDED 31 DECEMBER 2011

### RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

#### Specific and general provisions (Continued)

The geographical distribution of the general provision is as follows:

	31 December 2011	31 December 2010
	KD'000	KD'000
Kuwait and Middle East	13,197	10,954
Western Europe	38	7
Other	42	50
Un-allocated general provision	20,087	12,486
	<b>33,364</b>	<b>23,497</b>

The total general provisions balance above includes KD **1,238 thousand** (2010: KD 1,014 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.

#### Market risk

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

The Group has an approved Assets & Liability Management Committee (ALCO) policy, comprising of members from of the Group .The 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 main activity of the Group is the funding the different lines of banking business and hence the non-trading book constitutes major portion of the overall banking book. The Market risk functions adopts a comprehensive approach for the middle management to measure, manage and effectively monitor risks , in particular consumer, corporate, investment 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. The Group does not use derivatives for hedging its positions exposed to market risk as it is non-complaint with Shari'a Principles.

## **RISK MANAGEMENT (CONTINUED)**

### **Operational risk**

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

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 off shore. 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 arrays 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 which plays key role in addressing specific risks for the Groups' operations.

### **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.

The Group ensures that foreign currency risks are kept at the acceptable level.

### **Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its financial obligations. Liquidity risk management is one of the vital part 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 positions of the Group is within the manageable level.

### **Compliance with Shari'a Principles.**

The Shari'a Supervisory Board of the Bank ("the Board") 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: 11 Safar 1432 AH  
Corresponding to: 5 January 2012

**In the Name of Allah, The Merciful, The Compassionate**

### **Report of Fatwa & Shari'a Supervisory Board**

From 01.01.2011 to 31.12.2011

### **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" in Boubyan Bank has reviewed all contracts and transactions of the Bank for the period from 01.01.2011 to 31.12.2011 and amended the same in accordance with the rules and regulations of the Islamic Shari'a and approved them accordingly.

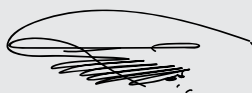
The said transactions and contracts include individual and international murabaha, ijara ending with ownership, investment wakala, sukuk, etc. in addition, standard forms and contracts have been approved for the Bank.

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 31.12.2011 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. Mohammed A. Al-Tabtabae



Sheikh Dr. Saud Mohammed Al-Rubaia



Sheikh Dr. Abdulaziz K. Al-Qassar



Sheikh Dr. Essam K. Al-Enezi

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INDEX	Page
Independent auditors' report	34-35
Consolidated statement of income	36
Consolidated statement of comprehensive income	37
Consolidated statement of financial position	38
Consolidated statement of changes in equity	39
Consolidated statement of cash flows	40
Notes to the consolidated financial statements	41-72

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BOUBYAN BANK K.S.C. AND SUBSIDIARIES

STATE OF KUWAIT



CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2011



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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 2011, and the consolidated statements of income, comprehensive income, changes in equity and 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 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.



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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 2011, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of 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 the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all the information that is required by the Kuwait Commercial Companies Law of 1960, as amended, 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 Kuwait Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Bank have occurred during the year ended 31 December 2011 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 Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2011.

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

**Jassim Ahmad Al-Fahad**  
License No. 53-A  
of Deloitte & Touche  
Al-Fahad, Al-Wazzan & Co.

Kuwait: 29 January 2012

**Consolidated Statement of Income**  
For the year ended 31 December 2011



	Notes	2011 KD'000	2010 KD'000
<b>Income</b>			
Murabaha and other Islamic financing income		52,927	41,187
Distribution to depositors		(11,671)	(9,045)
Murabaha cost		(1,647)	(1,862)
<b>Net financing income</b>		<b>39,609</b>	<b>30,280</b>
Investment income	5	7,506	6,844
Net fees and commission income	6	3,991	7,526
Share of results of associates	15	3,611	1,099
Net foreign exchange gain		858	777
Other income		165	80
<b>Operating income</b>		<b>55,740</b>	<b>46,606</b>
 Staff costs		 (15,605)	 (13,323)
General and administrative expenses		(8,181)	(7,237)
Depreciation and amortization		(1,594)	(1,624)
<b>Operating expenses</b>		<b>(25,380)</b>	<b>(22,184)</b>
<b>Operating profit before investment loss and provision for impairment</b>		<b>30,360</b>	<b>24,422</b>
Investment loss	5	(9,801)	(6,002)
Provision for impairment	7	(12,226)	(12,173)
<b>Operating profit before deductions</b>		<b>8,333</b>	<b>6,247</b>
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		(76)	-
National Labour Support Tax ("NLST")		(226)	(176)
Zakat		(90)	(76)
<b>Net profit for the year</b>		<b>7,941</b>	<b>5,995</b>
 <b>Attributable to:</b>			
Equity holders of the Bank		8,025	6,109
Non-controlling interests		(84)	(114)
<b>Net profit for the year</b>		<b>7,941</b>	<b>5,995</b>
<b>Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)</b>	8	<b>4.59</b>	<b>3.61</b>

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

**Consolidated Statement of Comprehensive Income**  
For the year ended 31 December 2011



	2011	2010
	KD'000	KD'000
<b>Net profit for the year</b>	<b>7,941</b>	<b>5,995</b>
<b>Other comprehensive income</b>		
Change in fair value of available for sale investments	(1,802)	(2,346)
Net (gains)/losses on available for sale investments transferred to consolidated statement of income	(1,730)	33
Impairment losses on available for sale investments transferred to consolidated statement of income	3,224	3,084
Foreign currency translation adjustments	(891)	(1,503)
<b>Other comprehensive loss for the year</b>	<b>(1,199)</b>	<b>(732)</b>
<b>Total comprehensive income for the year</b>	<b>6,742</b>	<b>5,263</b>
<b>Attributable to:</b>		
Equity holders of the Bank	6,826	5,314
Non-controlling interests	(84)	(51)
<b>Total comprehensive income for the year</b>	<b>6,742</b>	<b>5,263</b>

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 Financial Position**  
As at 31 December 2011



	Notes	2011 KD'000	2010 KD'000
<b>Assets</b>			
Cash and cash equivalents	9	191,957	140,654
Due from banks	10	128,061	147,798
Islamic financing to customers	11	1,030,084	824,567
Financial assets at fair value through profit or loss	12	65,197	76,893
Available for sale investments	13	66,127	58,639
Investments in associates	15	26,449	21,080
Investment properties	16	25,613	30,788
Other assets	17	12,127	11,163
Property and equipment		6,179	4,676
<b>Total assets</b>		<b>1,551,794</b>	<b>1,316,258</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Due to banks		78,987	120,854
Depositors' accounts		1,202,428	941,028
Other liabilities	18	23,211	14,266
<b>Total liabilities</b>		<b>1,304,626</b>	<b>1,076,148</b>
<b>Equity</b>			
Share capital	19	174,824	174,824
Share premium	20	62,896	87,728
Treasury shares	21	(1,024)	-
Statutory reserve	22	842	3,913
Voluntary reserve	23	802	3,591
Share based payment reserve	24	253	-
Fair value reserve		1,635	1,943
Foreign currency translation reserve		(2,364)	(1,473)
Retained earnings / (accumulated losses)		6,381	(32,336)
<b>Equity attributable to equity holders of the Bank</b>		<b>244,245</b>	<b>238,190</b>
Non-controlling interests		2,923	1,920
<b>Total equity</b>		<b>247,168</b>	<b>240,110</b>
<b>Total liabilities and equity</b>		<b>1,551,794</b>	<b>1,316,258</b>

Ibrahim Ali Al-Qadhi  
Chairman

Adel Abdul Wahab Al Majed  
Vice Chairman & Managing Director

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



**Consolidated Statement of Changes in Equity**  
For the year ended 31 December 2011

	Share capital KD 000	Share premium 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/ (accumulated losses) KD 000	Attributable to equity holders of the Bank KD 000	Non-controlling interests KD 000	Total equity KD 000
<b>Balance at 1 January 2010</b>	116,531	280	-	3,913	3,591	-	1,235	30	(38,445)	87,135	1,971	89,106
Increase in share capital	58,293	87,448	-	-	-	-	-	-	-	145,741	-	145,741
Total comprehensive income for the year	-	-	-	-	-	-	708	(1,503)	6,109	5,314	(51)	5,263
<b>Balance at 31 December 2010</b>	174,824	87,728	-	3,913	3,591	-	1,943	(1,473)	(32,336)	238,190	1,920	240,110
Write off of accumulated losses (note 31)	-	(24,832)	-	(3,913)	(3,591)	-	-	-	32,336	-	-	-
Transfer to reserves	-	-	-	842	802	-	-	-	(1,644)	-	-	-
Purchase of treasury shares	-	-	(1,024)	-	-	-	-	-	-	(1,024)	-	(1,024)
Total comprehensive income for the year	-	-	-	-	-	-	(308)	(891)	8,025	6,826	(84)	6,742
Share based payment	-	-	-	-	-	253	-	-	-	253	-	253
Net movement in non controlling interests	-	-	-	-	-	-	-	-	-	-	1,087	1,087
<b>Balance at 31 December 2011</b>	174,824	62,896	(1,024)	842	802	253	1,635	(2,364)	6,381	244,245	2,923	247,168

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

**Consolidated Statement of Cash Flows**  
For the year ended 31 December 2011



	Notes	2011 KD'000	2010 KD'000
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		7,941	5,995
<b>Adjustments for:</b>			
Provision for impairment	7	12,226	12,173
Depreciation and amortization		1,594	1,624
Foreign currency translation adjustments		800	4,224
Gain on sale of investments		(1,728)	(235)
Net unrealized loss from financial assets at fair value through profit or loss		1,202	(2,044)
Share of results of associates		(3,611)	(1,099)
Dividend income		(906)	(530)
Net unrealized loss from change in fair value of investment properties		6,636	4,795
Share based payment reserve		253	-
		<b>24,407</b>	<b>24,903</b>
<b>Changes in operating assets and liabilities:</b>			
Due from banks		18,836	(56,721)
Islamic financing to customers		(210,882)	(253,780)
Other assets		(3,486)	(480)
Due to banks		(41,543)	(35,927)
Depositors' accounts		261,400	232,071
Other liabilities		8,715	4,159
Dividend income received		906	530
<b>Net cash generated from/(used in) operating activities</b>		<b>58,353</b>	<b>(85,245)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets at fair value through profit or loss		(3,099)	(6,810)
Proceeds from sale of financial assets at fair value through profit or loss		13,378	14,739
Purchase of available for sale investments		(39,130)	(20,940)
Proceeds from sale of available for sale investments		29,003	25,158
Dividends from associates		337	-
Acquisition of associates		(2,570)	(12,887)
Purchase of investment properties		(1,934)	(4,482)
Proceeds from sale of investment properties		-	2,915
Purchase of property and equipment		(3,098)	(2,045)
<b>Net cash used in investing activities</b>		<b>(7,113)</b>	<b>(4,352)</b>
<b>FINANCING ACTIVITIES</b>			
Issue of share capital		-	145,741
Net movement in non controlling interests		1,087	-
Purchase of treasury shares		(1,024)	-
<b>Net cash generated from financing activities</b>		<b>63</b>	<b>145,741</b>
Net increase in cash and cash equivalents		51,303	56,144
Cash and cash equivalents at the beginning of the year		140,654	84,510
<b>Cash and cash equivalents at the end of the year</b>	9	<b>191,957</b>	<b>140,654</b>

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 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 Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The total number of employees in the Group was 738 as at 31 December 2011 (617 employees as at 31 December 2010). The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 10 January 2012.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### a) *New standards, interpretations and amendments effective from 1 January 2011*

The improvements to International Financial Reporting Standards ("IFRS") in 2010 made several minor amendments to a number of IFRSs. None of the new standards, interpretations and amendments, effective for the first time from 1 January 2011, have had a material effect on the consolidated financial statements.

### b) *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 2011, and have not been applied in preparing these consolidated financial statements. None of these is 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 been determined.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") 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 IFRS except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described in the impairment and uncollectability of financial assets accounting policy.

The accounting policies have been applied consistently by the Group and are consistent with those used in the previous year.

### **Accounting convention**

Unless otherwise indicated, the consolidated financial statements are presented in Kuwaiti Dinars rounded to the nearest thousand. The consolidated financial statements are prepared under the historical cost convention, except for certain available for sale investments, financial assets at fair value through profit or loss and investment properties that are stated at fair value.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., which are controlled by the Bank (collectively "the Group") as mentioned in note 14. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to equity holders of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of the financial position. Non controlling interest in the acquiree is measured at the proportionate share 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 to non-controlling interests are recorded in equity.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank. All intra-group transactions, balances, income, expenses and unrealized gains are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **Recognition of financial assets and liabilities**

Financial assets and liabilities 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.

#### **Due from banks and Islamic financing to customers**

##### *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 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 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.

#### **Investments**

Investments are classified into the following categories:

- Financial assets at fair value through profit or loss ; and
- Available for sale investments.

#### **Financial assets at Fair Value Through Profit or Loss ("FVTPL")**

Financial assets are classified at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis.

After initial recognition, the Group measures these assets at their fair values, without any deduction for transaction costs it may incur on sale or other disposal thereof with any resultant gain or loss recognised in profit or loss.

#### *Available for sale investments*

Available for sale investments are non-derivative investments that are not designated as another category of financial assets.

After initial recognition, investments which are classified as available for sale are measured at fair value or at cost if fair value cannot be reliably measured. Gains and losses arising from subsequent changes in fair value other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income for the year.

#### **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.

#### **Offsetting**

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

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.

#### **Investments in associates**

Associates are enterprises over which the Group exercises significant influence, and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in financial and operating policy decisions but not in control or joint control over those policies.

The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate using the equity method 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Losses of an associate in excess of the Group's share of ownership in that associate (which includes any long-term share of ownership that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

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.

#### Impairment and uncollectability of financial assets

An assessment of financial assets is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Impairment is determined as follows:

- for assets carried at amortized cost, impairment is the difference between carrying value and the present value of the estimated future cash flows discounted at the original effective rate of return;
- for assets carried at fair value, impairment is the difference between acquisition cost and fair value, less any impairment loss previously recognised in the consolidated statement of income; and
- for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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, the 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 Central Bank of Kuwait is issued.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for equity instruments classified as available for sale, reversals of impairment losses are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortized cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognized in the fair value reserve.

#### **Impairment of 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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 profit or loss, 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.

#### **Derecognition of financial assets and financial liabilities**

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.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **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 the 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.

##### **End of service benefits**

A provision is made for amounts payable to the employees for end of service benefits, which is calculated in accordance with the provisions of the Bank's bylaws and in accordance with the Labour Law of the State of Kuwait.

##### **Provisions**

A provision is recognized when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

##### **Fair values**

##### ***Investments***

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

##### ***Other financial assets and liabilities***

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Investment properties*

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. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

#### **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.

#### **Cash and cash equivalents**

Cash includes cash on hand and cash at banks, both in local and foreign currencies. Cash equivalents are short-term, highly liquid financial assets that are readily convertible to known amounts of cash that are subject to an insignificant risk of change in value.

#### **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.

#### **Foreign currencies**

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). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Kuwaiti Dinars ("KD") rounded to the nearest thousand, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

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 of.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

#### Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

#### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

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.

Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment as follows:

<u>Asset category</u>	<u>Useful life in years</u>
Furniture	5
Leasehold improvement	5
Office equipment	3
Building on leasehold land	20

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits derived from items of property and equipment.

#### 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.

#### Investment properties

Investment properties, which are held to earn rentals and / or for capital appreciation, are stated at their fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment properties are included in the consolidated statement of income of the period in which they arise.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Trading properties

Trading properties are held for short term purposes and stated at the lower of cost and net realizable value, determined on an individual basis. Cost comprises the purchase cost and other expenses incurred to complete the underlying transaction. Net realizable value is based on the estimated selling price less any future costs to be incurred on sale. Excess of cost over net realizable value is included in the consolidated statement of income.

#### 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.

#### 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.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

##### **Critical judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, management has made the following judgements, 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).

##### *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 28, 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.

##### **Key sources of estimation uncertainty**

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.

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011



**5. INVESTMENT INCOME / (LOSS)**

**Investment income**

	2011 KD'000	2010 KD'000
Unrealised gain from financial assets at fair value through profit or loss	1,846	3,186
Gain on sale of investments	1,728	242
Sukuk coupon income	1,571	1,165
Net income from investment properties	1,455	1,721
Dividend income	906	530
	<b>7,506</b>	<b>6,844</b>

**Investment loss**

	2011 KD'000	2010 KD'000
Unrealised loss from financial assets at fair value through profit or loss	(3,049)	(1,149)
Unrealized loss from change in fair value of investment properties	(6,752)	(4,853)
	<b>(9,801)</b>	<b>(6,002)</b>
<b>Net investment (loss) / income</b>	<b>(2,295)</b>	<b>842</b>

**6. NET FEES AND COMMISSION INCOME**

	2011 KD'000	2010 KD'000
Trade service fees	2,002	1,729
Banking services fees	1,785	1,371
Investment banking fees	554	3,295
Asset management fees	283	480
Other	249	1,303
<b>Total fees and commission income</b>	<b>4,873</b>	<b>8,178</b>
Fees and commission expense	(882)	(652)
<b>Net fees and commission income</b>	<b>3,991</b>	<b>7,526</b>

**7. PROVISION FOR IMPAIRMENT**

	2011 KD'000	2010 KD'000
Release of provision for impairment of due from banks	(4,350)	(4,615)
Provision for impairment of Islamic financing to customers	10,620	13,536
Provision for impairment of non-cash facilities	224	168
	<b>6,494</b>	<b>9,089</b>
Provision for impairment of available for sale investment	3,224	3,084
Provision for impairment of trading properties	2,508	-
	<b>12,226</b>	<b>12,173</b>

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011

**7. PROVISION FOR IMPAIRMENT (CONTINUED)**

Movements in the provision for impairment of finance facilities are as follows:

	Specific	General	Total
	KD'000	KD'000	KD'000
Balance at 1 January 2010	54,122	10,801	64,923
(Released) / provided during the year	(3,607)	12,696	9,089
Written off balances during the year	(48,110)	-	(48,110)
Foreign currency movement	(694)	-	(694)
Balance at 31 December 2010	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

At 31 December 2011, non-performing finance facilities amounted to **KD 5,476 thousand**, net of provision amounted to **KD 2,673 thousand** (31 December 2010: 5,786 thousand net of provision amounted to KD 1,711 thousand). The analysis of specific and general provision stated above is based on CBK instructions.

**8. BASIC AND DILUTED EARNINGS 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.

	2011	2010
Net profit for the year attributable to the equity holders of the Bank (KD'000)	8,025	6,109
Weighted average number of shares outstanding during the year (thousands of shares)	1,747,228	1,690,490
Earnings per share attributable to the equity holders of the Bank (fils)	4.59	3.61

**9. CASH AND CASH EQUIVALENTS**

	2011	2010
	KD'000	KD'000
Cash on hand	9,225	7,751
Balances with CBK – current account	177	409
Balances with banks – current accounts	11,477	1,313
Short-term Murabaha and placements with banks maturing within 7 days	171,078	131,181
	191,957	140,654

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

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011



**10. DUE FROM BANKS**

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

	2011	2010
	KD'000	KD'000
<b>Geographic region</b>		
Kuwait and the Middle East	126,443	145,569
Western Europe	1,800	2,335
Less: deferred profit	(182)	(106)
	<b>128,061</b>	<b>147,798</b>

**11. ISLAMIC FINANCING TO CUSTOMERS**

Islamic financing to customers, principally comprising of Murabaha and Wakala balances are stated net of provision for impairment. The geographical distribution of Islamic financing to customers is as follows:

	2011	2010
	KD'000	KD'000
<b>Geographic region</b>		
Kuwait and the Middle East	1,146,935	893,108
Western Europe	342	527
Other	8,020	3,688
Less: deferred profit	(90,410)	(48,562)
	<b>1,064,887</b>	<b>848,761</b>
Less: provision for impairment	(34,803)	(24,194)
	<b>1,030,084</b>	<b>824,567</b>

Provision for impairment is calculated based on CBK instructions on the outstanding balance net of deferred profits (if any) as follows:

	2011	2010
	KD'000	KD'000
Balance at beginning of the year	24,194	32,248
Provided during the year	10,620	13,536
Recovery of written off balances	185	-
Written off balances during the year	(196)	(21,479)
Foreign currency movement	-	(111)
Balance at end of the year	<b>34,803</b>	<b>24,194</b>

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

**12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2011	2010
	KD'000	KD'000
Investment in unquoted securities	30,461	32,124
Investment in quoted securities	3,849	10,320
Investment in unquoted funds	30,887	34,449
	<b>65,197</b>	<b>76,893</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 13. AVAILABLE FOR SALE INVESTMENTS

	2011	2010
	KD'000	KD'000
Investment in Sukuk	35,164	32,459
Investment in unquoted funds	17,690	16,800
Investment in unquoted securities	10,640	8,953
Investment in quoted securities	2,633	427
	<b>66,127</b>	<b>58,639</b>

### 14. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	2011 proportion of ownership interest and voting power %	2010 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company KSC (Closed)	Kuwait	57.63	56.78	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	100.00	100.00	Islamic investments

### 15. INVESTMENTS IN ASSOCIATES

The investments in associates comprise the following:

Name of associate	Country of incorporation	2011 proportion of ownership interest and voting power %	2010 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	24.94	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	33.33	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	20.00	-	Real Estate



## 15. INVESTMENTS IN ASSOCIATES (CONTINUED)

On 31 March 2011, the Group acquired 9.9% of the share capital of Saudi Projects Holding Group ("SPHG"), a Kuwait Shareholding Company engaged in the real-estate business. On 22 December 2011, the Group acquired a further 10.1% of the share capital. As a result, the Group's equity interest in 2011 has increased to 20% and obtained significant influence over SPHG. The total consideration transferred at the acquisition dates amounted to **KD 2,570 thousand**. The acquisition resulted in a goodwill of **KD 715 thousand**, which has been determined on a provisional basis. The Group is in the process of determining the fair values of the acquired assets and assumed liabilities of SPHG and therefore disclosure of the fair values of the net identifiable assets and the goodwill arising from the acquisition cannot be made. Finalisation of the valuation is expected to be completed during 2012.

Bank Syariah Muamalat Indonesia TBK (Bank Muamalat) was established in 1991 and commenced operations in May 1992. The establishment of Bank Muamalat was initiated by the Indonesian Council of Ulama (MUI), which was supported by a group of entrepreneurs.

Ijarah Indonesia Finance Company has been granted the license during 2007 from the relevant authorities in Indonesia to render financing services.

The Group's share of results of associates is recognised based on the associates' management accounts as at 30 November 2011.

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

	2011	2010
	KD'000	KD'000
Balance at the beginning of the year	21,080	7,386
Acquisition of associate	2,570	13,909
Share of results of associates	3,611	1,099
Dividends received	(337)	-
Fair value reserves of associates	445	62
Foreign currency translation adjustments	(920)	(1,376)
	<b>26,449</b>	<b>21,080</b>

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

	2011	2010
	KD'000	KD'000
Total assets	973,588	695,695
Total liabilities	(866,583)	(607,605)
Net assets	107,005	88,090
Group's share of net assets	26,449	21,080
Group's share of contingent liabilities	14,107	11,117
	<b>2011</b>	<b>2010</b>
	<b>KD'000</b>	<b>KD'000</b>
Total revenue	72,906	49,865
Net profit	11,540	5,361
Group's share of results	3,611	563

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 16. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2011	2010
	KD'000	KD'000
Balance at the beginning of the year	30,788	35,914
Additions during the year	1,934	4,482
Disposals during the year	-	(2,693)
Net unrealized loss from change in fair value of investment properties	(6,636)	(4,795)
Foreign currency translation adjustments	(473)	(2,120)
	<b>25,613</b>	<b>30,788</b>

Investment properties comprise a number of commercial properties that are managed by third parties in Europe, Japan, the United States and the Middle East.

Investment properties include properties with a carrying value of **KD 20,994 thousand** as at 31 December 2011 (31 December 2010: KD 25,907 thousand), which were acquired through a number of special purpose entities.

### 17. OTHER ASSETS

	2011	2010
	KD'000	KD'000
Accrued income	1,001	1,647
Prepayments	1,707	1,154
Acceptance letters of credit	4,691	3,520
Software	1,655	1,338
Trading properties	279	2,800
Other	2,794	704
	<b>12,127</b>	<b>11,163</b>

### 18. OTHER LIABILITIES

	2011	2010
	KD'000	KD'000
Creditors and accruals	4,591	2,000
Accrued staff benefits	4,530	3,462
Clearing accounts	6,478	2,916
Acceptance letters of credit	4,691	3,520
General provision on non-cash facilities	1,238	1,014
Margin accounts	1,025	842
Other	658	512
	<b>23,211</b>	<b>14,266</b>

### 19. SHARE CAPITAL

	2011		2010	
	Shares	KD'000	Shares	KD'000
Shares issued and fully paid	<b>1,748,235,315</b>	<b>174,824</b>	<b>1,748,235,315</b>	<b>174,824</b>

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011



**20. SHARE PREMIUM**

The share premium is not distributable except under specific circumstances as provided by the Kuwait Commercial Companies Law (Note 31).

**21. TREASURY SHARES**

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

	2011	2010
Number of treasury shares	1,715,000	-
Treasury shares as a percentage of total shares in issue - %	0.09810%	-
Cost of treasury shares – KD thousand	1,024	-
Market value of treasury shares – KD thousand	1,012	-

**22. 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 and Zakat 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 (Note 31).

**23. 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 (Note 31).

**24. 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 538 fils. The significant inputs into the model were a share price of 630 fils at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 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:

	Number of share options 2011	Number of share options 2010
Outstanding at 1 January	-	-
Granted during the year	1,409,630	-
Exercised during the year	-	-
<b>Outstanding at 31 December</b>	<b>1,409,630</b>	<b>-</b>

The expense accrued on account of share based compensation plans for the year amounts to KD 253 thousand and is included under staff cost.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 25. RELATED PARTY TRANSACTIONS

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. 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 consolidated financial statement captions:

	Number of board members or executive officers		Number of related parties		2011	2010
	2011	2010	2011	2010	KD'000	KD'000
<b>Due from related parties:</b>						
Cash and cash equivalent	-	-	1	1	18,002	47,255
Due from banks	-	-	1	2	5,001	71,240
Islamic financing to customers	10	5	1	1	13,653	33,307
<b>Due to related parties:</b>						
Due to banks	-	-	3	5	25,251	49,938
Depositors' accounts	11	10	5	4	14,548	4,639
<b>Transactions with related parties:</b>						
Letters of guarantee and letters of credit	4	3	-	-	460	3,117
Revenues	10	3	3	5	906	3,571
Expenses	-	-	7	5	(400)	(663)

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 44,170 thousand** as at 31 December 2011 (31 December 2010: KD 20,429 thousand).

#### Compensation of key management personnel:

The following is the details compensation for key management, including compensation of **KD 140 thousand** (2010: KD 156 thousand) to chairman and board of directors members for assignments performed by them including those related to board committees:

Details of compensation for key management comprise the following:

	2011	2010
	KD'000	KD'000
Short-term benefits	1,692	1,489
Post-employment benefits	185	217
Share based compensation	98	-
	<b>1,975</b>	<b>1,706</b>

Senior executive officers also participate in the Group's share based payment programme (see note 24).

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011



**26. CONTINGENCIES AND COMMITMENTS**

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

	2011	2010
	KD'000	KD'000
Guarantees	111,142	81,334
Acceptances and letters of credit	34,901	21,377
Capital commitments (projects under construction)	856	1,479
Credit commitments	20,158	8,014
	<b>167,057</b>	<b>112,204</b>

**27. 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 financial institutions, 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.

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011



**27. SEGMENT REPORTING (CONTINUED)**

**For the year ended 31 December 2011**

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Finance Income	11,417	39,838	-	1,757	(85)	52,927
Distribution to depositors & murabaha cost	(3,819)	-	(342)	(9,567)	410	(13,318)
<b>Net financing income</b>	<b>7,598</b>	<b>39,838</b>	<b>(342)</b>	<b>(7,810)</b>	<b>325</b>	<b>39,609</b>
Investment income	38	1,571	5,897	-	-	7,506
Net fees and commission income	1,013	2,482	1,905	(28)	(1,381)	3,991
Share of results of associates	-	-	3,242	-	369	3,611
Net foreign exchange gain	-	-	-	858	-	858
Other income	35	-	69	-	61	165
Segment revenues	8,684	43,891	10,771	(6,980)	(626)	55,740
Segment expenses	(4,044)	(21,252)	(22,343)	13,598	(13,758)	(47,799)
Segment results	4,640	22,639	(11,572)	6,618	(14,384)	7,941

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<b>Assets</b>						
Cash and cash equivalents	6,644	-	7,884	182,726	(5,297)	191,957
Due from banks	-	6,525	-	121,536	-	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	-	-	-	-	12,127	12,127
Property and equipment	-	-	-	-	6,179	6,179
<b>Total assets</b>	<b>248,795</b>	<b>855,491</b>	<b>155,429</b>	<b>304,262</b>	<b>(12,183)</b>	<b>1,551,794</b>
<b>Liabilities and Equity</b>						
Due to banks	-	-	4,105	78,987	(4,105)	78,987
Depositors' accounts	571,927	-	-	638,380	(7,879)	1,202,428
Other liabilities	-	-	-	-	23,211	23,211
Equity	-	-	2,923	-	244,245	247,168
<b>Total liabilities and equity</b>	<b>571,927</b>	<b>-</b>	<b>7,028</b>	<b>717,367</b>	<b>255,472</b>	<b>1,551,794</b>

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011

**27. SEGMENT REPORTING (CONTINUED)**

**For the year ended 31 December 2010**

	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Finance Income	5,889	34,099	-	1,528	(329)	41,187
Distribution to depositors & murabaha cost	(2,951)	-	-	(7,977)	21	(10,907)
<b>Net financing income</b>	<b>2,938</b>	<b>34,099</b>	<b>-</b>	<b>(6,449)</b>	<b>(308)</b>	<b>30,280</b>
Investment income	18	1,387	5,439	-	-	6,844
Net fees and commission income	1,026	3,113	883	-	2,504	7,526
Share of results of associates	-	222	877	-	-	1,099
Net foreign exchange gain	-	-	-	777	-	777
Other income	20	-	22	9	29	80
Segment revenues	4,002	38,821	7,221	(5,663)	2,225	46,606
Segment expenses	(4,656)	(21,061)	(13,590)	7,884	(9,188)	(40,611)
Segment results	(654)	17,760	(6,369)	2,221	(6,963)	5,995
	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
<b>Assets</b>						
Cash and cash equivalents	9,473	-	3,634	131,181	(3,634)	140,654
Due from banks	-	6,803	-	140,995	-	147,798
Islamic financing to customers	125,736	721,005	-	-	(22,174)	824,567
Financial assets at fair value through profit or loss	-	-	76,893	-	-	76,893
Available for sale investments	-	33,280	25,359	-	-	58,639
Investments in associates	-	-	21,080	-	-	21,080
Investment properties	-	-	30,788	-	-	30,788
Other assets	-	-	-	-	11,163	11,163
Property and equipment	-	-	-	-	4,676	4,676
<b>Total assets</b>	<b>135,209</b>	<b>761,088</b>	<b>157,754</b>	<b>272,176</b>	<b>(9,969)</b>	<b>1,316,258</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 28. SEGMENT REPORTING (CONTINUED)

#### For the year ended 31 December 2010

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<b>Liabilities and Equity</b>						
Due to banks	1,660	-	-	130,561	(11,367)	120,854
Depositors' accounts	391,912	-	-	552,749	(3,633)	941,028
Other liabilities	-	-	-	-	14,266	14,266
Equity	-	-	1,920	-	238,190	240,110
<b>Total liabilities and equity</b>	<b>393,572</b>	<b>-</b>	<b>1,920</b>	<b>683,310</b>	<b>237,456</b>	<b>1,316,258</b>

#### 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.

#### For the year ended 31 December 2011

	Kuwait & the Middle East	North America	Western Europe	Other	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets	1,449,074	3,228	73,297	26,195	1,551,794
Non-current assets (excluding financial instruments)	19,249	657	22,436	17,555	59,897
Liabilities and equity	1,543,368	-	8,288	138	1,551,794
Segment income	51,558	106	1,620	2,456	55,740

#### For the year ended 31 December 2010

	Kuwait & the Middle East	North America	Western Europe	Other	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets	1,215,498	5,165	76,860	18,735	1,316,258
Non-current assets (excluding financial instruments)	14,679	1,562	26,800	14,983	58,024
Liabilities and equity	1,313,729	-	2,313	216	1,316,258
Segment income	44,126	147	1,628	705	46,606



## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits. The Group regularly reviews the risk management policies to reflect changes in markets, products and emerging best practice.

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalent, investments, bank borrowings, receivables and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. To limit this risk, the Group deals with reputed customers, including corporate, financial institutions and high net worth individuals and has policies and procedures in place to limit the amount of credit exposure to any single and related counterparty. These policies include the non-concentration of credit risk. The Group minimizes concentrations of credit risk by undertaking transactions with a large number of customers. All policies relating to credit are reviewed and approved by the Board of Directors.

#### *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

		Gross maximum exposure 2011	Gross maximum exposure 2010
	Notes	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	9	182,732	132,903
Due from banks	10	128,061	147,798
Islamic financing to customers	11	1,030,084	824,567
Available for sale investments (Sukuk)	13	35,164	32,459
Other assets	17	10,193	7,025
		<b>1,386,234</b>	1,144,752
Contingent liabilities		146,043	102,711
Commitments		21,014	9,493
<b>Total credit risk exposure</b>		<b>1,553,291</b>	1,256,956

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

More details on the maximum exposure to credit risk for each class of financial instruments are provided to the specific notes.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Credit risk (Continued)

*Risk concentrations of the maximum exposure to credit risk*

The Group manages concentration of risk by client/counterparty, geographical region and industry sector. The maximum Islamic financing exposure to one client or counterparty as of 31 December 2011 was **KD 30,429 thousand** (31 December 2010: KD 26,631 thousand). The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2011			2010		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Kuwait and the Middle East	312,563	1,043,640	1,356,203	269,516	850,054	1,119,570
Western Europe	15,926	8,489	24,415	20,386	638	21,024
Other	2,116	3,500	5,616	415	3,743	4,158
	<b>330,605</b>	<b>1,055,629</b>	<b>1,386,234</b>	<b>290,317</b>	<b>854,435</b>	<b>1,144,752</b>

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

	2011			2010		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Trading and manufacturing	-	197,321	197,321	-	138,085	138,085
Banks and financial institutions	330,605	206,398	537,003	290,317	194,387	484,704
Construction and real estate	-	267,265	267,265	-	263,229	263,229
Other	-	384,645	384,645	-	258,734	258,734
	<b>330,605</b>	<b>1,055,629</b>	<b>1,386,234</b>	<b>290,317</b>	<b>854,435</b>	<b>1,144,752</b>

#### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash collaterals
- Bank guarantees
- Real estate
- Shares and other Islamic financial instruments

The Group also may obtain guarantees from parent companies for financing provided to their subsidiaries. Management monitors the market value of collateral and requests additional collateral if required in accordance with the underlying agreement. It is the Group's policy to dispose of repossessed properties. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011

**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Credit risk (Continued)**

**Collateral and other credit enhancements (Continued)**

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of asset for statement of financial position lines.

**31 December 2011**

	Neither past due nor impaired		Past due or impaired	Total
	Banks	Non- banks		
	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	182,732	-	-	182,732
Due from banks	126,261	-	1,800	128,061
Islamic financing to customers	-	998,521	31,563	1,030,084
Available for sale investments (Sukuk)	19,813	15,351	-	35,164
Other assets	-	10,193	-	10,193
	<u>328,806</u>	<u>1,024,065</u>	<u>33,363</u>	<u>1,386,234</u>

**31 December 2010**

	Neither past due nor impaired		Past due or impaired	Total
	Banks	Non- banks		
	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	132,903	-	-	132,903
Due from banks	145,548	-	2,250	147,798
Islamic financing to customers	-	815,113	9,454	824,567
Available for sale investments (Sukuk)	9,616	22,843	-	32,459
Other assets	-	7,025	-	7,025
	<u>288,067</u>	<u>844,981</u>	<u>11,704</u>	<u>1,144,752</u>

Ageing analysis of past due or impaired financial assets:

	2011	2010
	KD'000	KD'000
Up to three months	27,888	6,150
3 to 6 months	1,102	-
6 to 12 months	261	37
Over 1 year	4,112	5,517
	<u>33,363</u>	<u>11,704</u>

## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### Credit risk (Continued)

#### Collateral and other credit enhancements (Continued)

At 31 December 2011 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to reasonably approximate **KD 13,458 thousand** (31 December 2010: KD 6,025 thousand).

#### Finance facilities with renegotiated terms

Finance facilities with renegotiated terms are facilities that have been restructured due to deterioration in the counterparty's financial position and where the Group has made concessions that it would not otherwise consider. Once the facility is restructured it remains in this category independent of satisfactory performance after restructuring or following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring activities include extended payment arrangements, approved external management plans, additional collateral modification and deferral of payments.

During 2011, the Group has renegotiated the terms of certain balances of Islamic financing to customers with a total of **KD 6,056 thousand** (2010: KD 25,300 thousand). Had these balances not been renegotiated, such balances would have been past due or impaired.

### Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices such as foreign currency and equity price risks.

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

The Group is not exposed to 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.

The Group is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group ensures that the net exposure is kept to an acceptable level by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The table below indicates the foreign currencies to which the Group had significant exposure as at 31 December. The analysis calculates the effect of a 5 percent increase in foreign currency rates against Kuwaiti Dinar, with all other variables held constant, on the reported results and equity. A negative amount in the table reflects a potential net reduction in reported results or equity, while a positive amount reflects a net potential increase.

	2011		2010	
	Effect on reported results	Effect on equity	Effect on reported results	Effect on equity
	KD'000	KD'000	KD'000	KD'000
US Dollar	79	-	23	23
Sterling Pound	(10)	-	(4)	(4)
Euro	(53)	-	(22)	7
Indonesian Rupiah	-	847	-	717
Sudan Pound	-	347	-	337
Others	(44)	-	49	-

## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### Market risk (Continued)

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect to 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 2011 would have increased equity by **KD 664 thousand** (31 December 2010: an increase of KD 469 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 1,715 thousand** (31 December 2010: an increase of KD 2,122 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.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities. Further, the Group periodically assesses the financial viability of customers.

The Group has established an Asset and Liabilities Management committee to manage 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.

The following table summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective maturities as indicated by the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements.

The maturity profile of the assets and undiscounted liabilities is as follows:

### 31 December 2011

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
<b>Assets</b>					
Cash and cash equivalents	191,957	-	-	-	<b>191,957</b>
Due from banks	96,658	31,403	-	-	<b>128,061</b>
Islamic financing to customers	494,101	213,485	65,475	257,023	<b>1,030,084</b>
Financial assets at fair value through profit or loss	3,849	-	-	61,348	<b>65,197</b>
Available for sale investments	26,085	-	4,178	35,864	<b>66,127</b>
Investments in associates	-	-	-	26,449	<b>26,449</b>
Investment properties	-	-	-	25,613	<b>25,613</b>
Other assets	7,484	-	2,988	1,655	<b>12,127</b>
Property and equipment	-	-	-	6,179	<b>6,179</b>
<b>Total assets</b>	<b>820,134</b>	<b>244,888</b>	<b>72,641</b>	<b>414,131</b>	<b>1,551,794</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Liquidity Risk (Continued)

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
<b>Liabilities and Equity</b>					
Due to banks	40,294	-	-	38,693	78,987
Depositors' accounts	711,966	246,627	237,503	6,332	1,202,428
Other liabilities	11,829	-	5,616	5,766	23,211
Equity	-	-	-	247,168	247,168
<b>Total liabilities and equity</b>	<b>764,089</b>	<b>246,627</b>	<b>243,119</b>	<b>297,959</b>	<b>1,551,794</b>

#### 31 December 2010

	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
<b>Assets</b>					
Cash and cash equivalents	140,654	-	-	-	140,654
Due from banks	139,433	8,365	-	-	147,798
Islamic financing to customers	545,502	92,571	46,417	140,077	824,567
Financial assets at fair value through profit or loss	41,508	-	-	35,385	76,893
Available for sale investments	32,886	-	-	25,753	58,639
Investments in associates	-	-	-	21,080	21,080
Investment properties	-	-	-	30,788	30,788
Other assets	5,689	-	3,992	1,482	11,163
Property and equipment	-	-	-	4,676	4,676
<b>Total assets</b>	<b>905,672</b>	<b>100,936</b>	<b>50,409</b>	<b>259,241</b>	<b>1,316,258</b>

	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
<b>Liabilities and Equity</b>					
Due to banks	108,021	149	-	12,684	120,854
Depositors' accounts	599,236	181,111	160,041	640	941,028
Other liabilities	9,837	-	1,901	2,528	14,266
Equity	-	-	-	240,110	240,110
<b>Total liabilities and equity</b>	<b>717,094</b>	<b>181,260</b>	<b>161,942</b>	<b>255,962</b>	<b>1,316,258</b>

## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

### 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.

### 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 approximate their fair values at 31 December due to the relatively short-term maturity of the instruments.

### Fair value hierarchy

The table below analyzes 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 for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	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 financial assets	-	66,127	-	66,127
	<u>3,849</u>	<u>127,475</u>	<u>-</u>	<u>131,324</u>
31 December 2010	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
Financial assets held for trading	180	-	-	180
Financial assets at fair value through profit or loss	10,140	66,573	-	76,713
Available for sale financial assets	-	58,639	-	58,639
	<u>10,320</u>	<u>125,212</u>	<u>-</u>	<u>135,532</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011



### 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Capital management

The Group maintains an actively managed capital base 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 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 credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group's regulatory capital position at 31 December was as follows:

	2011 KD'000	2010 KD'000
<b>Tier 1 capital</b>		
Share capital	174,824	174,824
Share premium	62,895	87,728
Treasury shares	(1,024)	-
Statutory reserve	842	3,913
Voluntary reserve	802	3,591
Share based payment reserve	253	-
Retained earnings /(accumulated losses)	6,381	(32,336)
Non-controlling interests	2,923	1,920
Deductions from tier 1 capital	(13,040)	(11,018)
	<b>234,856</b>	<b>228,622</b>
<b>Tier 2 capital</b>		
Fair value and foreign currency translation reserves	(1,628)	(599)
General provision	10,928	9,667
Deductions from tier 2 capital	(13,040)	(11,018)
	<b>(3,740)</b>	<b>(1,950)</b>
<b>Total regulatory capital</b>	<b>231,116</b>	<b>226,672</b>
Risk-weighted assets	<b>922,151</b>	<b>821,846</b>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	<b>25.06%</b>	<b>27.58%</b>
Total tier 1 capital expressed as a percentage of risk-weighted assets	<b>25.47%</b>	<b>27.82%</b>



**Notes to the Consolidated Financial Statements**  
For the year ended 31 December 2011

**29. FINANCIAL ASSETS AND LIABILITIES**

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

**31 December 2011**

	Designated as at fair value	Held for trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
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
	<u>65,030</u>	<u>167</u>	<u>1,329,223</u>	<u>66,127</u>	<u>20,879</u>	<u>1,481,426</u>
Due to banks	-	-	-	-	78,987	78,987
Depositors' accounts	-	-	-	-	1,202,428	1,202,428
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,281,415</u>	<u>1,281,415</u>
Net (losses)/gains	<u>(557)</u>	<u>(13)</u>	<u>52,927</u>	<u>349</u>	<u>(13,318)</u>	<u>39,388</u>

**31 December 2010**

	Designated as at fair value	Held for trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	-	-	131,181	-	9,473	140,654
Due from banks	-	-	147,798	-	-	147,798
Islamic financing to customers	-	-	824,567	-	-	824,567
Financial assets at fair value through profit or loss	76,713	180	-	-	-	76,893
Available for sale investments	-	-	-	58,639	-	58,639
	<u>76,713</u>	<u>180</u>	<u>1,103,546</u>	<u>58,639</u>	<u>9,473</u>	<u>1,248,551</u>
Due to banks	-	-	-	-	120,854	120,854
Depositors' accounts	-	-	-	-	941,028	941,028
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,061,882</u>	<u>1,061,882</u>
Net gains/(losses)	<u>2,557</u>	<u>(160)</u>	<u>41,766</u>	<u>(1,722)</u>	<u>(10,907)</u>	<u>31,534</u>

**Notes to the Consolidated Financial Statements**

For the year ended 31 December 2011



**30. FIDUCIARY ASSETS**

The aggregate value of assets held in a trust or fiduciary capacity by the Bank amounted to **KD 59,241 thousand** (31 December 2010: KD 51,704 thousand).

**31. WRITE OFF OF ACCUMULATED LOSSES**

The Bank's general assembly meeting held on 17 March 2011 approved write-off of accumulated losses of KD 32,336 thousand in the Bank's equity as at 31 December 2010 against voluntary reserve of KD 3,591 thousand, statutory reserve of KD 3,913 thousand and share premium of KD 24,832 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.