

Annual Report 2010

www.kfh.bh



Bringing Banking to Life

2010



بيت التمويل الكويتي
Kuwait Finance House
البحرين ش.م.ب (م) B.S.C.(c) Bahrain





His Royal Highness
Prince Khalifa bin Salman
Al Khalifa
The Prime Minister



His Majesty
King Hamad bin Isa
Al Khalifa
The King of the Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad
Al Khalifa
The Crown Prince and Deputy
Supreme Commander

Best Investment Product
Banker Middle East '10
Menatelecom

Best Islamic Covered Card
Banker Middle East '10
Baytik Ijara

Best Islamic Wealth Management
Islamic Business & Finance Awards '09
Priority Banking

Best Project Finance House
Banker Middle East Industry Awards '08
Corporate Finance

Best Retail Brand
World Islamic Banking Conference Awards '08
KFH Group

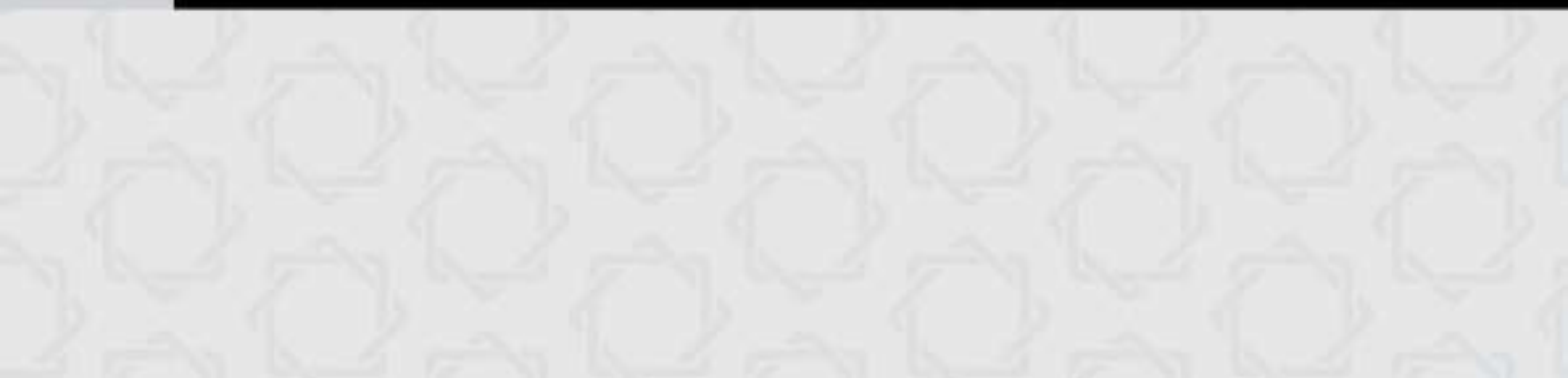
Best New Product
Islamic Business & Finance Awards '08
Priority Banking

Best New Product
Islamic Business & Finance Awards '07
Durrat Al Bahrain



Kuwait Finance House-Bahrain

Annual Report 2010



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Bringing Banking to Life

Vision

At KFH-Bahrain we believe that banking is not just about money. For us it is something that can improve people's lives. Whether we are providing commercial and investment banking services or financial products for consumers, we start by understanding our customers and their needs. With an emphasis on innovation, we aim to provide cutting edge Islamic banking solutions while staying faithful to Shari'a principles, with a view to enhancing the lives of our customers.

Mission

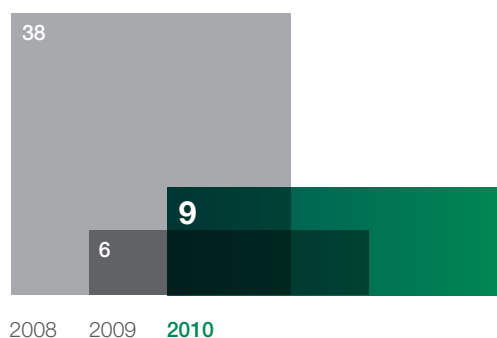
It is our mission to "Bring Banking to Life" by focusing on innovation, thinking outside the box and insisting on excellence in everything we do. This includes the development and provision of a wide range of integrated products and services in perfect harmony with Shari'a principles. Our mission and our commitment are backed by a robust financial position and a long and proven heritage of ingenuity, innovation and integrity.



Kuwait / Saudi Arabia / Bahrain / Malaysia / Jordan / Turkey / Singapore / Australia

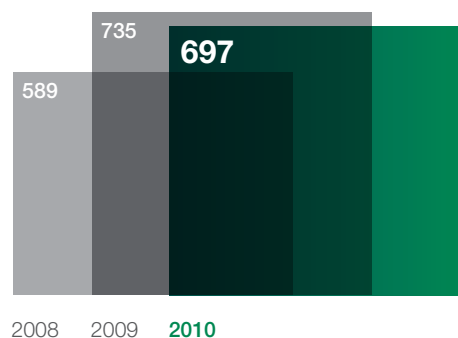
Net Income

BD Million



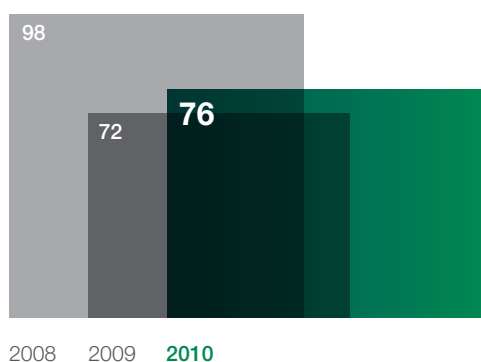
Customers Deposits

BD Million



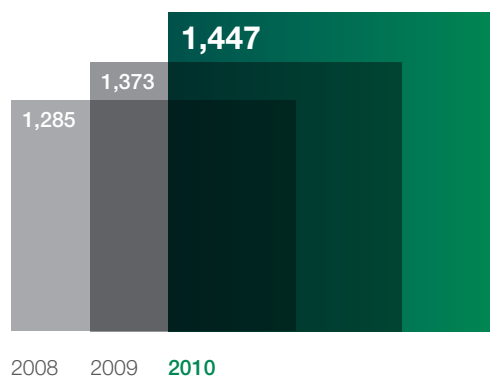
Operating Income

BD Million



Total Assets

BD Million



Profile

Kuwait Finance House-Bahrain (“KFH-Bahrain” or the “Bank”), is a leading provider of Islamic retail commercial and investment banking services. Established in 2002 as a wholly owned subsidiary of Kuwait Finance House-Kuwait, a global industry leader, KFH-Bahrain specialises in conceptualising the development and introduction of innovative, Shari’a compliant banking and investment products.

KFH-Bahrain enjoys a reputation as a performance-driven, results-oriented institution, combining global investment strategies with the provision of popular retail products and services. KFH-Bahrain has made major advances and experienced considerable growth in the last few years, allowing it to further develop its products and services and provide outstanding investment opportunities for its customers.

At the forefront of the investment and finance sectors, KFH-Bahrain has developed a series of successful projects and made further investments in diverse sectors of the economy.

KFH-Bahrain is continuing its strategy of innovation and change and is committed to setting new standards for Islamic banking and finance. Such a strategy will reaffirm KFH-Bahrain’s status as a market leader, enhancing its continued contribution to the economic growth and social development of the Kingdom of Bahrain.



Bader A. M. Al-Mukhaizeem
Chairman

Chairman's Statement

Dear Ladies and Gentlemen,

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace Be Upon the Last Prophet and Messenger Mohammed.

It is my pleasure to present the annual report of KFH-Bahrain for the year ended 31st December 2010. Notwithstanding the continuing difficult global and regional economic climate, I am pleased to report that, by the Grace of Allah the Almighty, 2010 was a good year for KFH-Bahrain with the Bank posting solid financial results.

Financial Results

The Bank's financial results for 2010 show solid steady growth, a testament to the Bank being prudent and careful. Revenue for the year increased by BD 3.7 million as compared to 2009 to reach BD 75.7 million. Net operating income for the year increased by BD 8 million to reach BD 50 million due to the combined impact of increased revenue and reduced cost of funds. Net income for the year increased by BD 3.2 million, an increase of 52% from 2009, to reach BD 9.3 million. Total assets of the Bank reached BD 1.5 billion, an increase of BD 73.3 million from 2009.

Adherence to Islamic principles

The appointment of a dedicated Sharia Board comprising of well respected scholars Shaikh Dr. Ajeel Jasem Al-Nashmi (Chairman), Shaikh Dr. Khalid Mathkour Al-Makhkour (Member) and Shaikh Dr. Mohammed Abdul Razaq Al-Tabtabaee (Member) has worked well and this has further ensured that the Bank's products and processes adhere to Islamic principles.

Risk, governance and compliance

The Bank continues to follow best practice when it comes to risk, governance and compliance and I am very pleased to report that the board is satisfied with the risk, governance and compliance framework employed by the Bank. In 2010, the Bank employed a comprehensive economic capital planning model and a thorough stress test regime as per Basel II requirements. This significantly helped the Bank to anticipate risk and therefore allowed us to prepare mitigation strategies to deal with such risks ahead of time.

Customer satisfaction - a priority

We continue to review and improve our policies, procedures and processes in order to provide our customers with a first class service. We have appointed dedicated staff who are available to manage and handle customers complaints which in turn are logged and reported to the audit, risk, governance and compliance committee so that the board have oversight of the improvement of our service to customers.

In 2010, KFH-Bahrain employed a comprehensive economic capital planning model and a thorough stress test regime as per Basel II requirements. This significantly helped the Bank to anticipate risk and therefore allowed us to prepare mitigation strategies to deal with such risks ahead of time.

We have worked tirelessly to improve our IT infrastructure and this year we introduced automated systems and completed the upgrade of our core banking system so as to enhance our services and responsiveness to customers.

Community Service

The Bank supported a range of initiatives and activities, contributing towards the further development of Islamic banking and finance in both the business and economic sectors of the Kingdom of Bahrain. The Bank was a platinum sponsor of the Islamic Financial Services Board Summit, a gold sponsor of the Annual Conference of the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) in Bahrain and a gold strategic partner of The World Islamic Banking Conference. In addition, several key educational and leadership initiatives have been supported such as the International Leadership Conference organized by the Bahrain Management Society, and the 5th Anniversary of InJaz Bahrain.

Recognition

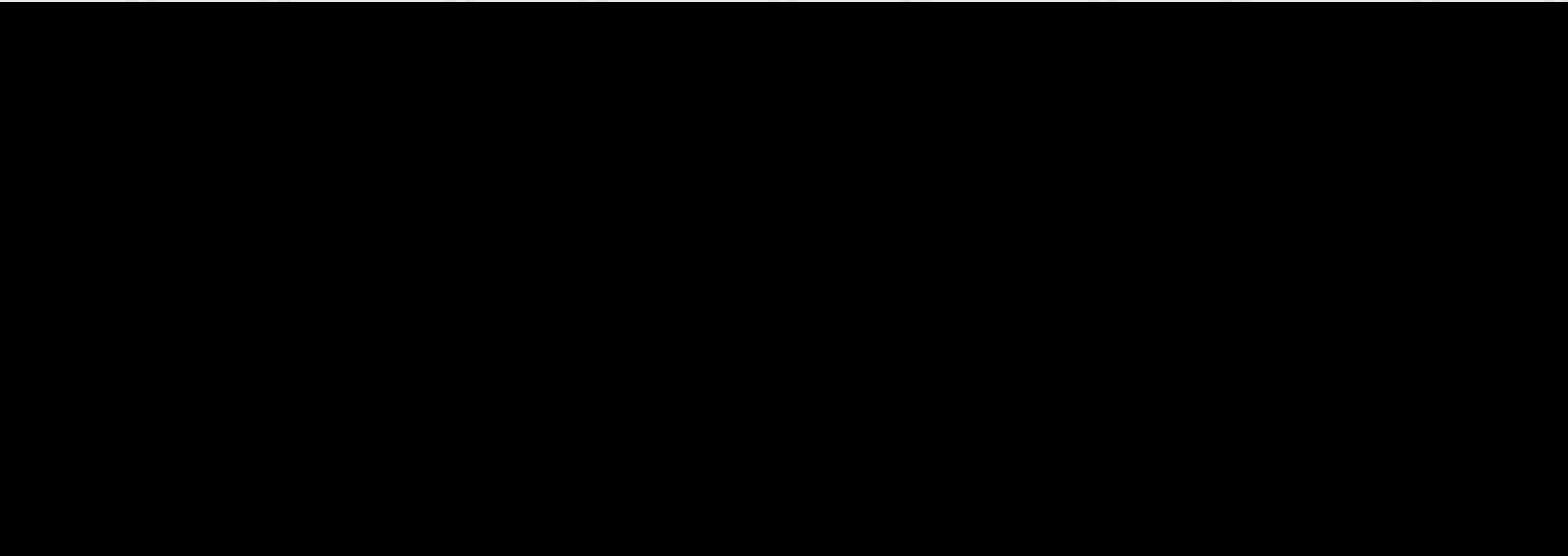
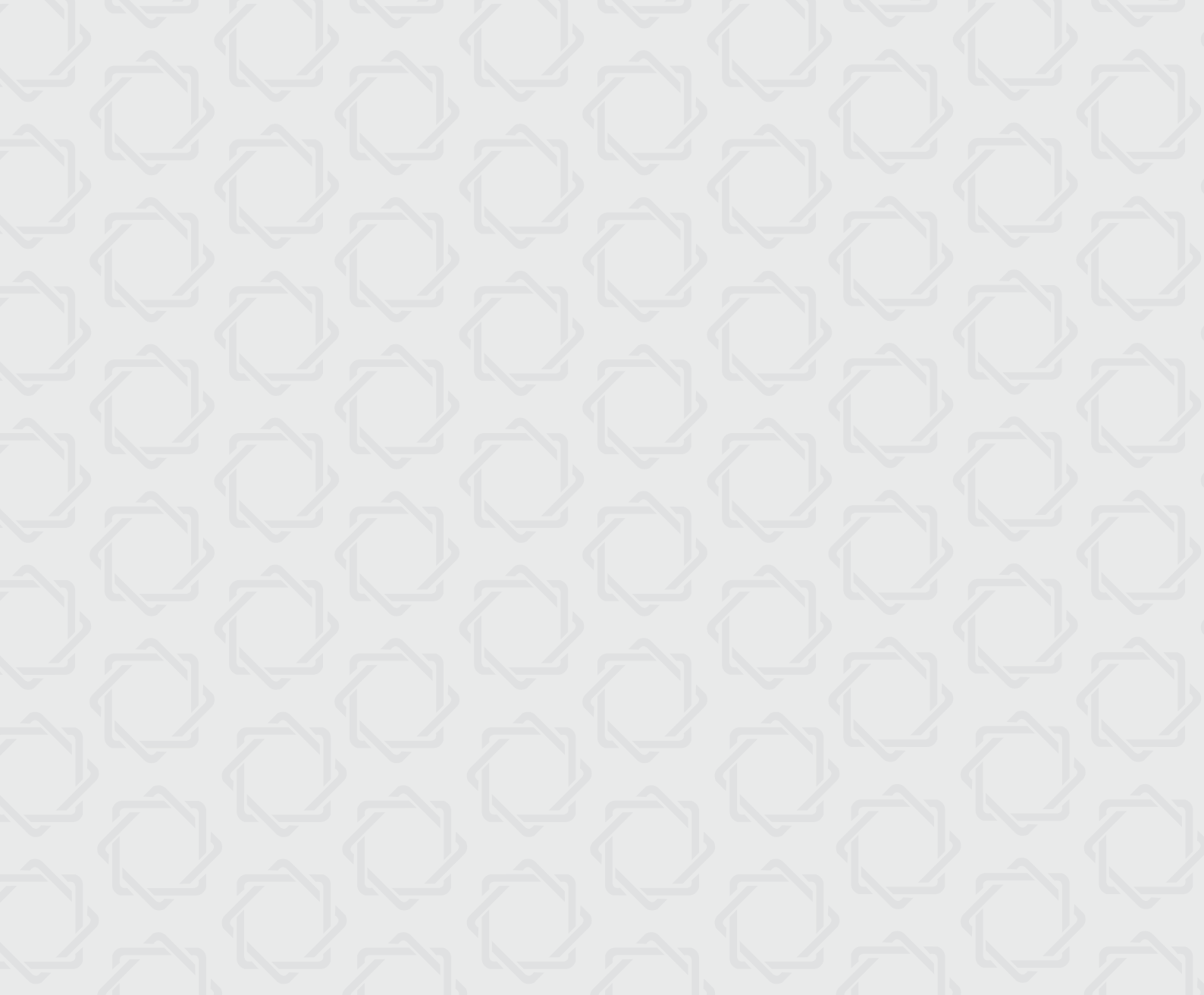
I am pleased to report that we were honored with two prestigious awards, namely, "Best Investment Product" awarded by CPI Financial at the Islamic Banking & Finance Awards 2010 for Menatelecom and "Best Islamic Covered Card" by Banker Middle East for our Ijara Card.

Thanks

On behalf of the Bank's Board of Directors and executive management, I would like to thank His Majesty King Hamad Bin Isa Al Khalifa, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander. I would also like to extend our sincere appreciation to the Government of Bahrain and the Central Bank of Bahrain for their valuable direction.

In conclusion, I would like to thank our esteemed stakeholders for their support, our customers and business partners for their trust and loyalty, and the management and staff for their continued dedication and high professional standards.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman





Abdulhakeem Yaqoob Alkhayyat
Managing Director & CEO

Managing Director and CEO's Statement

Dear Ladies and Gentlemen,

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace be Upon the Last Prophet and Messenger Muhammad.

I am pleased to report that 2010 was a good year for the Bank. In a year when the global economy remained uncertain, we improved our profitability and continued our efforts to enhance our services, product offering and general all round performance. With thanks to Allah the Almighty and the support of our Chairman, the Board of Directors, management and staff, we posted solid financial results and met our overall objective of growth.

Retail & Corporate Banking

The global crisis has clearly put pressure on some of our retail and corporate clients and we have tried our best to support them to the extent that we can in accordance with our risk management framework and Islamic principles. Where we have agreed to give customers additional time to manage their cash flows, we are now seeing more of them paying regularly as they have weathered the impact of the crisis. Our retail and corporate business makes up a significant part of our total assets and gives our P&L a steady and predictable income stream.

Debt Capital Markets & Investment Banking

Whilst the debt capital markets remain disturbed by the after-effects of the global economic crisis, our debt capital markets department has worked hard to manage our portfolio and continues to search for attractive investment opportunities that meet our risk appetite. With regards to investments, we continued to actively manage our investment portfolio with a view to finding exit opportunities as appropriate. Good progress has been made in this regard with one very successful exit. Our flagship real estate investments in Bahrain continue to progress and we are working actively on these projects to maximize value in the medium and long term.

New Shari'a Board

I would like to deliver my sincere thanks to our Shari'a Board under the guidance of their chairman Shaikh Dr. Ajeel Jasem Al-Nashmi. The Shari'a Board has worked well with our Shari'a department and we are already feeling the benefit of their wisdom and guidance.

Information Technology

I am very pleased with the improvements in the Bank's IT infrastructure. In 2010, we introduced branch automation and upgraded our core banking system and data centre. This has resulted in quicker processing which should allow us to provide a faster and more efficient service. I am also pleased to report the success of our new and improved e-banking which has been well received by customers.

Outlook

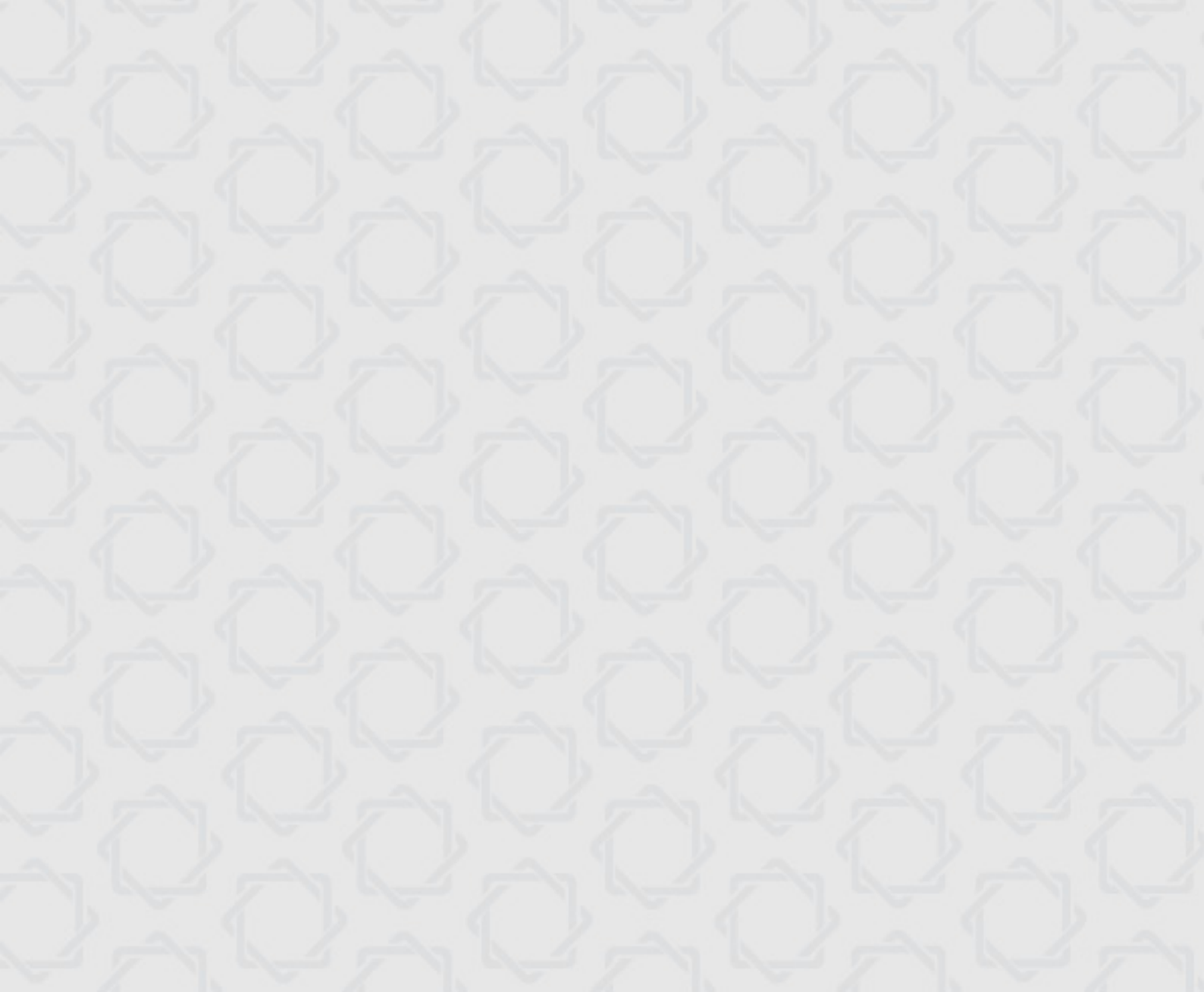
As uncertainty remains regarding the global economic outlook it is difficult to predict how the global economy will perform. That said, I do anticipate growth in the Gulf region both in terms of retail and investment banking and, accordingly, we will continue to be innovative with our products and we will also be keen to capitalize on regional investment opportunities as and when they appear.

Appreciation

In conclusion, I would like to express my sincere thanks and gratitude to the Chairman and members of the Board for their continued guidance and support. I would like to thank our loyal customers for their trust and confidence in the Bank and look forward to providing them with an enhanced banking experience in 2011. I would also like to thank the Bank's staff for their dedication and hard work throughout 2010.

Abdulhakeem Yaqoob Alkhayyat
Managing Director & Chief Executive Officer

In 2010, we introduced branch automation and upgraded our core banking system and data centre. This has resulted in quicker processing which should allow us to provide a faster and more efficient service.





EXECUTIVE OFFICES

Board of Directors



**Bader Abdul Muhsen
Al-Mukhaizeem**

Chairman



**Mohammed Bin
AlShaikh Ishaq**

Vice Chairman



**Mohammed Sulaiman
Al Omar**

Board Member



**Abdulhakeem Yaqoob
Alkhayyat**

Managing Director & CEO



**Yaqoob Yousef
Majed**

Board Member



**Adel Ahmed Al
Banwan**

Board Member



Abdul Razak Jawahery
Executive Manager



Ahmad Saeed
Executive Manager



Khalid Al Maarafi
Executive Manager



Lilian Le Falher
Executive Manager



Paul Mercer
Executive Manager



Sattam Algosaibi
Executive Manager

Executive Management



Hisham Al-Moayyed
Senior Manager - Real Estate



Isa Al Duwaishan
Senior Manager - Shari'a



Yousif Al-Hammadi
Senior Manager - Financial Control
& Administration



Raed Ajawi
Internal Auditor

Department Senior Managers



Investment Portfolio



We began 2010 with a mission to increase operational efficiency within our portfolio assets. We seized the opportunity to rebalance our portfolio and streamline the underlying businesses. The Investment team strengthened the post acquisition monitoring process and enhanced governance controls within our portfolio companies. These efforts have resulted in appreciation in the value of the assets.

2008 and 2009 were challenging years for the entire investment banking industry. As some of our investments were not completely immune to the crisis, adequate fair value adjustments were made in our financial statements during those two years to reflect the fall in value. We began 2010 with a mission to increase operational efficiency within our portfolio assets. We seized the opportunity to rebalance our portfolio and streamline the underlying businesses. Our Investment team strengthened the post-acquisition monitoring process and enhanced governance controls within our portfolio companies. These efforts have resulted in appreciation in the value of our assets.

Real Estate Investments

We have continued our execution of real estate projects in the Kingdom of Bahrain and the MENA region. Our support to real estate projects, whether directly undertaken by us or through strategic partnerships, enabled these projects to weather the difficult market conditions witnessed during the previous period. Our robust portfolio includes several renowned projects such as Diyar Al Muharraaq, Durrat Al Bahrain, Ishbiliya Village.



In 2010, we continued our financial and management support for existing large scale real estate development projects and completed major development phases within a planned timeframe and budget. Steady progress was made towards the pre-development phase of some of the new projects and these are being monitored closely.

Corporate Investments

Our strategy is to pursue private equity deals with mature and cash-generative businesses that have committed and experienced management teams. These have been predominantly within the telecommunications, technology, healthcare, utilities and oil and gas industries. However, despite a robust deal pipeline, we have made the strategic decision not to invest in any new deals until the volatility in the financial and capital markets has subsided.





Banking Group



The consumer banking and finance services provided by KFH–Bahrain combine a broad range of innovative products and services with exceptional customer care. Our products and financing facilities are developed with the aim of providing for the long term needs of customers in the local market.



Bahrain World Trade Centre Branch



Manama Branch



East Riffa Branch



Automall Sitra Branch



Muharraq Branch



Adliya Branch



Automall Exhibition Road Branch



West Riffa Branch



Isa Town Branch - Opening Soon

Our Branches

The consumer banking and finance services provided by KFH-Bahrain combine a broad range of innovative products and services with exceptional customer care. Our products and financing facilities are developed with the aim of providing for the long term needs of customers in the local market. Our growth is driven by the determination to continuously improve our service quality, while thinking innovatively and striving to deliver superior Islamic Shari'a compliant products remain at the core of all we do.

KFH-Bahrain provides a 'one-stop-shop' for our customers' banking and financing requirements through our growing network of branches and ATMs. Our ATM network has been upgraded to provide a more secure service, while network coverage has increased with new machines being installed. New ATMs in major residential, financial and shopping districts, including prime locations such as Durrat Al Bahrain, bring the current total to 20.

New services and innovative products are constantly being introduced for the benefit of our customers. These range from technology and service enhancements that provide greater access to information and funds, both locally and internationally, to the launch of our unique, never-before-seen products. We have demonstrated a constant pattern of growth with our electronic services throughout the year with the introduction of the online banking service and real-time cash and cheque deposit ATM Machines and an upgrade of both the telephone banking and customized SMS notification services.

Our Baytik Ijara card, winner of Banker Middle East Awards 2010 for the "Best Islamic covered card", is the world's first Islamic financing card that allows cardholders to acquire durable goods on a 'lease-to-own' basis, including a special cardholder merchant discount scheme. This financing facility has been developed further to provide exclusive finance schemes such as Student Finance and an exclusive offer for Durrat Al Bahrain villa owners.

A unique 25 year home financing scheme is another example of our dedication for product innovation. With an exclusive offer targeting Ishbiliya Village villas and houses and selective partnerships with prime residential projects, we have set a new standard in consumer finance.

The first Islamic chipped credit card – a Shari'a compliant offering with many benefits, introduced in 2007 in association with Visa – was enthusiastically received and continues its impressive growth. Customers enjoy a revolving credit facility without incurring interest and instead pay a low annual service charge.

KFH Automall showrooms are considered to be the largest in Bahrain to date and are located in Sitra and Exhibition Road. Each showroom provides a unique automotive and marine shopping experience, while also benefitting from a fully-fledged KFH-Bahrain branch within its facility. KFH Automalls provide customers with the convenience of a 'one-stop-shop' service for financing, insurance, registration and auto services and add-ons, all under one roof.

KFH-Bahrain's Corporate Finance department has continued to maintain a strong and solid performance.

We aim to support the business growth of clients by providing customized financing solutions using a broad range of Shari'a-compliant financing instruments. These include: Murabaha, Ijara and Istisna'a, as well as Commodity Murabaha.

Our Corporate Finance department provides services for new and established companies in both the public and private sectors, covering areas of:

- Project financing
- Real estate financing
- Working capital financing
- Trade financing

Our Corporate Finance team of professionals strives to strengthen client relationships and reinforce the confidence merchants and traders have in KFH-Bahrain by continually providing an exceptional quality of service and expert advice. Our experienced team also identifies and evaluates opportunities to fulfill clients' needs and continues to maintain a solid track record in maximizing the business potential of our clients.

Corporate Finance

Treasury and Asset Management

Our Treasury Department in 2010 continued its monitoring of the Bank's liquidity management and maintained the Bank's solid capital adequacy. In support of our overall growth, a 2010 placement policy resulted in the expansion of our counterparty relationships locally, regionally, and internationally.

Part of the Department's mission is also the development of services in the fields of liquidity management, long-term investment funds and asset-backed securities, intended for a diversified range of investors.

Debt Capital Markets (DCM) & Syndication

During 2010, DCM focused on building the Bank's sukuk portfolio. Issuers tapping the markets in 2010 were mainly of sound credits, and were either established financial institutions, sovereigns, or quasi-sovereign issuers. As such, sukuk offerings during 2010 were mainly suited to the Bank's risk profile post the global financial crisis. DCM is also actively involved in arranging sukuk for some regional issuers.

2010 marked a much-awaited recovery of the GCC debt capital markets with a positive trend continuing throughout the year. Such a revival has seen DCM become the point of contact for issuers seeking to draw on KFH debt capital market expertise. As regional governments and large corporate face significant financing and refinancing needs in 2010, DCM was solicited to participate at various levels.

Due to the scarcity of high-profile offerings in GCC sukuk market during 2010, DCM was selective in its approach; nevertheless it remains committed to sourcing, originating and participating in deals representing KFH (Bahrain) or as an integral part of the combined international strength of KFH (Group).

Treasury & Debt Capital Markets

KFH Bahrain's approach to risk governance

The Bank's approach to risk is based on robust corporate governance practices and a risk management culture which guides the way all employees approach their work and the decisions they make. The Board takes the lead by establishing the 'tone at the top' and approving professional standards and corporate values. The Board ensures that senior management implements strategic policies and procedures designed to promote professional behavior and integrity. The Board also ensures that senior management implements risk policies and risk appetites that either limit, or where appropriate, prohibit activities, relationships, and situations that could diminish the quality of corporate governance.

Such Board level engagement, coupled with the direct involvement of the Audit, Risk, Governance and Compliance Committee in group-wide risk issues ensures that issues are escalated on a timely basis and, if necessary, appropriate remediation plans are put in place.

The Risk Management Committee / Asset and Liability Committee are chaired by the MD and Chief Executive Officer and includes members of the executive management. The risk profile and portfolio appetite are considered and discussed at these regular meetings.

The Bank has a conservative business model embodied by a risk culture founded on prudence and accountability, where everyone understands that they are accountable for the risks they take and that the needs of customers are paramount. The focus has been and remains on building and sustaining long-term relationships with customers. The approach is supported by a 'through the cycle' approach to risk, with strong central control and monitoring. The Bank's Risk Management Framework prescribes the proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank. The business units are the front line operators of risk management practices in the Bank and hence, are the first line of control. The support and control units including the Financial & Internal Control, Credit Administration & Review, Collections, Compliance, AML, Operations, Legal, Shari'a and Risk Management functions are the second line of control on the risks taken by the business units. The Risk Management Department provides the risk management tools and framework for business and support units. The Audit function is responsible to independently assess the adequacy of controls.

The Bank continually identifies and controls risk through a comprehensive set of risk strategies, policies, limit structures and credit disbursement criteria.

Risk Management

Key risk framework activities undertaken by KFH-Bahrain in the past year:

- The Bank has completed the Central Bank of Bahrain (CBB) mandated risk review profile assessment for Basel II compliance.
- The Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) to achieve an optimum balance between risk and return, quantifying the economic capital standards for the key risks that the Bank is exposed to.
- The Bank, on an ongoing periodic basis, conducts comprehensive stress tests for its various portfolios to assess the impact of adverse events on its business growth strategies. The models used have been reviewed and declared satisfactory by external consultants.
- The Bank provides Basel II training to all its employees to inculcate a culture of risk management across its business and support units.
- The Bank uses a comprehensive Risk and Control Self Assessment ("RCSA") framework to identify and manage various risks embedded in the operations
- The Bank has provided comprehensive risk guidelines to its subsidiaries for proper risk integration of risk across the group.

At KFH Bahrain, we recognize that the best practices in the Risk Management are continuously evolving and changing. The Bank is geared to adopt new techniques and best practices as they evolve. The objective is to create maximum value for the various stakeholders by managing the risks in the best possible manner by continuously improving the risk culture in the Bank.

We at KFH-Bahrain are committed to adopting the highest international standards, regulatory requirements and global best practices in corporate governance. KFH-Bahrain has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements and enhance organisational efficiency.

We have established a robust organizational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Managing Director and Chief Executive Officer, the entire Management, and Senior Management Committees.

Responsibilities

The Board of Directors are accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long term sustainable shareholder value by providing effective governance over the Bank's affairs. The Board determines the strategic objectives and policies of KFH-Bahrain to deliver long term value and provide overall strategic direction within a framework of rewards, incentives and controls.

The Chairman is responsible for leading the Board, ensuring its effectiveness and monitoring its performance. The Board currently has three committees: the Audit, Risk, Governance & Compliance Committee; the Executive Committee; and the Nomination and Remuneration Committee. Each committee has specific terms of reference that define its scope, powers and responsibilities.

Information about the Board structure, the managerial structure, the qualifications and experience of each Board Member, the qualification and experience of the Chairman, the Managing Director and Chief Executive Officer and the Executive Managers are provided in Section 4 of the Public Disclosure (enclosed to this Annual Report).

The remuneration/incentive structure of the Managing Director and the Chief Executive Officer, Board Members and Shari'a Board Members is discussed at Board level. Remuneration of the Managing Director and the Chief Executive Officer and Board Members is approved in the AGM.

Corporate Governance Charter

We have developed a Corporate Governance Charter that provides the basis for promoting high standards of corporate governance in KFH-Bahrain. It sets out high level guidelines and lays the foundation for our overall corporate governance system. It outlines the key elements of an effective corporate governance framework and

Corporate Governance

describes the roles and responsibilities of the Board of Directors in its review, approval and monitoring of the Bank's strategy and financial performance. It also contains the terms of reference for all the Board and Senior Management Committees.

Code of Conduct

We have developed a Code of Conduct that governs the professional and personal behaviour of KFH-Bahrain's directors, management and staff.

Compliance

KFH-Bahrain is committed to conducting its business in a Shari'a compliant manner, to delivering its strategic and operational objectives with the highest professional and ethical standards and to complying fully with the spirit and letter of any applicable regulatory requirements, Kingdom of Bahrain legislation, code of best practice promoted by industry associations and internal codes of conduct.

In this context, and in compliance with the Central Bank of Bahrain requirements, we have established an independent Compliance/AML Department that is responsible for ensuring the appropriate implementation of the Compliance Framework, and adherence to the Compliance Policies documented in the Board-approved Compliance Policy Manual. The Compliance Framework is based upon the premise that compliance with established policies is intended to help us efficiently realise our goals while complying with applicable laws, rules and regulations.

The primary purpose of the Compliance Policy Manual is to establish a strong compliance culture within KFH-Bahrain by giving us a framework of policies and guidelines to which we must adhere to ensure appropriate management of Compliance Risk and the discharge of our duties relating to regulatory authorities' requirements. It ensures that we adhere to all applicable regulations, and that any violations are identified and corrected on a timely basis. The Manual provides the basis for the creation of our Compliance Function Infrastructure, facilitating the optimisation of shareholder value. By implementing these guidelines we will be able to monitor and control Compliance Risk exposures more effectively.

The Board of Directors has the overall responsibility for ensuring that all activities of KFH-Bahrain are conducted in full compliance with applicable laws and regulations.

The Board has approved the Compliance Policy. The Policy shall be reviewed as and when there is a significant change in KFH-Bahrain's business model or regulatory requirements. Policy review ensures that it is in line with our current practices or any other changes introduced by the CBB and other regulatory authorities that may have an impact on the Compliance Function.

In addition to the Policy, we have adopted Compliance Procedures which allow us to appropriately manage compliance risk and discharge our responsibilities relating to regulatory authorities. The objective of the procedures is to ensure that:

- All regulatory requirements are adequately complied with;
- Potential non-compliance is detected, reported and rectified in a timely manner; and
- Non-compliances are reported to the appropriate statutory body and internally to the Managing Director & Chief Executive Officer and Audit, Risk, Governance and Compliance Committee.

Disclosures

A Public Disclosure Policy has been developed as part of our commitment to the highest standards of transparency and fairness in disclosing information for the benefit of all stakeholders. The Public Disclosure Policy provides the approach adopted towards managing and controlling the process of public disclosure of financial and non-financial communication to shareholders and customers, ensuring that the information disseminated complies with the CBB directives and is accurate, complete and fairly presents KFH-Bahrain's financial position and results of operations in all material respects within regulatory-stipulated timelines. The purpose of the policy is to assist the Board, Senior Management and relevant departments to understand their roles and responsibilities in the Disclosure Process. We are committed to disclosing information to the public in a manner consistent with guidelines provided by the Central Bank of Bahrain, and in line with Basel II Pillar III requirements.

Anti Money Laundering

We have adopted detailed policies and procedures in line with the Central Bank of Bahrain's directives to combat money laundering, financing of terrorism and other financial crimes. Detailed procedures are included upon account opening and through customer due diligence, as well as in internal and external reporting, staff training and record keeping. It helps all members of management and staff to understand:

- The legal requirements and the different penalties for non-compliance;
- What the Bank requires of all members of management and staff; and
- How to recognise money laundering and the action one must take.

It is a firm policy of KFH-Bahrain not to allow itself to be directly or indirectly used by any elements for unlawful activities. From our perspective, the prevention of money laundering, financing of terrorism and other financial crimes has three objectives:

- **Ethical** – taking part in the fight against crime;
- **Professional** – ensuring that we are not involved in recycling the proceeds of crime that could call into question the Bank's reputation and integrity; and
- **Legal** – complying with Bahrain legislation and regulations that impose a series of specific obligations on financial institutions and their employees.

We have appointed a Money Laundering Reporting Officer pursuant to the provisions of the CBB rulebook volume 2 who is responsible for ensuring the appropriate implementation of and adherence to the AML Policies and Procedures as approved by the Board.

Corporate Communication Policy

We maintain an effective communication policy that enables both the Board and Management to communicate effectively with stakeholders and the general public. Main communication channels include the annual report, public disclosure, corporate website and corporate brochure, and regular announcements in the appropriate local press.

The Communications Policy has been approved by the Board. This Policy ensures the disclosure of all relevant information to stakeholders on a timely basis in and the provision of at least the last three years of financial data on KFH-Bahrain's website.

We have a Corporate Communication Department which is responsible for communicating new product information through various channels of communication which includes websites, direct mailers, electronic mail and local media.

The department supports the Compliance Officer on any communication required to our investors and customers. The Corporate Communication Department has assisted, where required, with all business units of KFH-Bahrain in support of their awareness programmes or marketing of new products and services for the year 2010. The department has assisted throughout the year with its various social functions and charitable contributions. These are highlighted in the Corporate Social Responsibility section of the Annual Report.

Consumer / Investor Awareness Programmes

We employ a range of communication channels to reach consumers and investors to create awareness of our products, services and investments.

Communication channels for consumers normally adopt an integrated approach, depending on the level of exposure and awareness required. This can include mass media, publishing advertisements in the press and magazine publications, billboards, lamp posts, LED display boards, direct mail, SMS messaging and emails. The external communication programme is supported by in-branch communication including: roll-ups, banners, posters, leaflets, flyers, brochures, danglers and online media via the KFH-Bahrain website, Call Center and eBanking site.

Communication to investors is predominantly via Private Placement Memorandums and Investor Reports. We also communicate our investments via our website. All other investment communication is directly via our Investment Placement Team as part of its investor relations programmes.

Complaints and Feedback

We have appointed a Complaints Officer to manage customer complaints and ensure that all complaints are properly addressed and issues are solved in a timely manner. After receiving a complaint, the Complaints Officer internally addresses the complaint to the concerned department for their response. After analysing the responses of the concerned department the Complaints Officer finds a suitable solution and communicates it to the complainant. There are various channels in place to assist in receiving feedback/complaints from customers including our website and suggestion boxes at each of our branches.

Other Disclosures

The information on the nature and extent of transactions with related parties is reported on pages 72 and 73 of KFH-Bahrain's Financial Statements.

Page 91 of the Financial Statements provides the information on systems and controls employed by KFH-Bahrain to ensure Shari'a compliance, which includes information on any non-Shari'a compliant earnings and expenditures, and the manner in which they were disposed of, as well as KFH-Bahrain's annual zakat contributions.

As a concerned corporate citizen and a leading Bahrain-based Islamic financial institution, we are committed to contributing to the social well-being of the local community. We are also committed to supporting the business and economic development of the Kingdom of Bahrain, in line with the principles of Shari'a and an ethical approach to business.

Throughout 2010, KFH-Bahrain continued to implement a comprehensive corporate social responsibility (CSR) programme comprising financial and practical support for numerous charitable, educational, medical, cultural, sporting and social organisations, and other deserving causes. We also participated in and sponsored a number of major initiatives and events aimed at supporting Islamic banking and finance, and promoting business and economic development. Some examples of our CSR activities during the year are listed below:

Developing Tomorrow's Sporting Champions

- Sponsored the Manama Club Bankers' Cup.
- Sponsored the Bahrain Billiard & Snooker Association.
- Sponsored the Sitra Sports Club.
- Sponsored the Bahrain Football Association.
- Sponsored the Bahrain Golf Association.

Supporting Islamic Banking and Finance

- AAOIFI – World Bank Annual Conference.
- Platinum Sponsor of the Islamic Financial Services Board Summit.
- Gold Sponsor of the Annual Conference of the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) in Bahrain.
- Gold Strategic Partners and Gala Dinner Hosts of The World Islamic Banking Conference.

Promoting Education and Leadership

- Sponsor of the Leaders for Excellence Conference organized by the University of Bahrain.
- Sponsor of the International Leadership Conference organized by the Bahrain Management Society.
- Sponsor of the 5th Anniversary of InJAz Bahrain.

Corporate Social Responsibility

Shari'a Board Report

In the name of Allah, the Beneficent, the Merciful. Praise be to Allah, the Lord of the Worlds, and peace and blessing be upon our Prophet, Muhammed, and on his Companions.

To the Shareholders of KFH-Bahrain,

Assalam Alaikum Wa Rahmatullah Wa Barakatuh,

According to the letter of appointment, we submit the following report:

We have monitored the products used and the contracts relating to the transactions and applications offered by KFH-Bahrain during the year ended 31st December 2010. We have also conducted our required monitoring to form an opinion as to whether KFH-Bahrain has complied with Shari'a Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

Management Responsibility:

The responsibility of ensuring that the Bank works according to Islamic Shari'a rules and principles lies on the management, while our responsibility is confined to express an independent opinion based on our monitoring of the Bank's operations and prepare a report for you.

Shari'a Board Scope of Work:

Through the Shari'a Department we reviewed and approved the contracts and agreements forms and reviewed all the transactions of Kuwait Finance House - Bahrain, with the shareholders, investors and others, by selecting a random sample of them from all the departments according to the annual plan of Shari'a Audit, and through the Head of Shari'a Department periodic reports on the reviews and field visits, and conduct of business and the proper compliance with the fatwas and decisions issued by the Shari'a Board.

We planned and performed our monitoring so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that KFH-Bahrain has not violated the Shari'a Rules and Principles.

Shari'a Board opinion:

- a) The contracts and transactions, conducted by KFH-Bahrain during the year ended 31st December 2010, that we have reviewed are in compliance with the Shari'a Rules and Principles;
- b) The allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'a Rules and Principles;
- c) All earnings that have been realised from sources or by means prohibited by Shari'a Rules and Principles, have been put aside in a separate account and disposed of to charitable causes; and
- d) The calculation of Zakat is in compliance with Islamic Shari'a Rules.

The Shari'a Board, hence approves the report based on the periodic reports provided to us by the Shari'a Department.

The Shari'a Board would like to thank the management, the various departments and the staff for their cooperation and compliance to the Shari'a principles and guidelines. We pray to Allah the Almighty to grant us success and the path of straightforwardness.

Wassalam Alaikum Wa Rahmatullah Wa Barakatuh.



Ajeel Jasem Al-Nashmi
Chairman



Khalid Mathkour Al-Mathkour
Member



Mohammed Abdul Razaq Al-Tabtabae
Member

Independent Auditors' Report

to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House (Bahrain) B.S.C. (c) [the "Bank"] and its subsidiaries [together the "Group"] which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, cash flows, changes in equity and restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards, 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. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with the Islamic Shari'a rules and principles.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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.

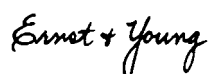
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license and has complied with the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group.



21 February 2011
Manama, Kingdom of Bahrain

