Kuwait Finance House K.S.C. and Subsidiaries

29th Annual Report 2007

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بيت التمويل الكويتي

Kuwait Finance House

الأمان والإطمئنان

بسم الله الرحمن الرحيم

In the name of Allah the Most Gracious, the Most Merciful Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Qura'an

His Highness

Sheikh Sabah Al Ahmad Al Jaber Al Sabah

The Amir of Kuwait

His Highness

Sheikh Nawaf Al Ahmad Al Jaber Al Sabah

The Crown Prince

His Highness

Sheikh Nasser Mohammad Al Ahmad Al Sabah

The Prime Minister

Kuwait Finance House
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Bank of the Year

2007

The Banker

Bank of the Year 2007
KUWAIT

Published By FT Business
FINANCIAL TIMES

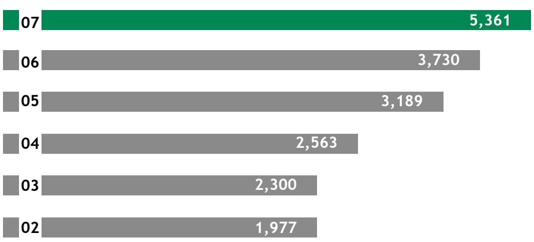
Kuwait Finance House

With its strong Islamic values, is a financial institution whose aim is to develop and promote Islamic banking worldwide. Kuwait Finance House offers unique yet competitive products and services directed to target markets for both depositors and shareholders.

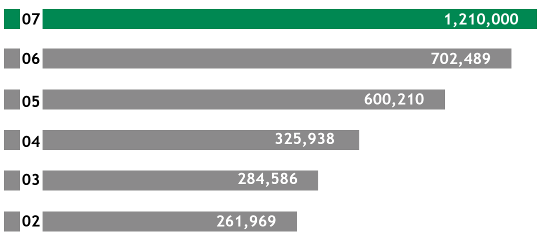
In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honorable relationship with its client base and the Islamic community as a whole.

The values are continually reinforced and adhered to in all aspects of the corporate operations. Its integrity and sincerity has maintained quality service at all times. The employees of Kuwait Finance House are constantly encouraged to be efficient, creative and above all successful. Career enhancement is actively promoted with an ever-changing financial world, creating a healthy professional environment.

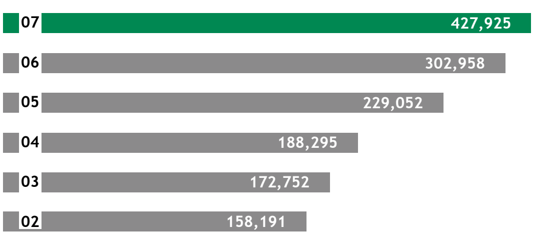
Depositors' Account Growth
(in millions of Kuwaiti Dinars)
+44%



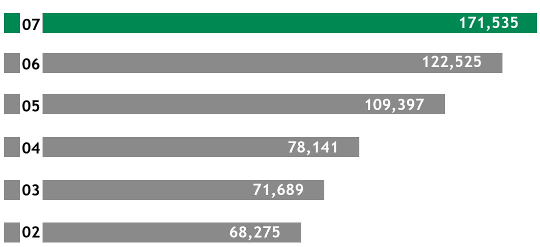
Shareholders' Funds Growth
(in thousands of Kuwaiti Dinars)
+72%



Reserves Growth
(in thousands of Kuwaiti Dinars)
+41%



Capital Growth
(in thousands of Kuwaiti Dinars)
+40%



Board of Directors

Chairman and Managing Director
Bader Abdul Muhsen Al-Mukhaizeem

Deputy Chairman
Sameer Yaqoub Al-Nafeesi

Board Member
Mohammed Ali Al-Khudairi

Board Member
Saud Abdul Aziz Al-Babtain

Board Member
Ali Mohammed Al-Elaimi

Board Member
Essam Saud Al-Rashid

Board Member
Dr. Mohammed A. Al-Sherif

Board Member
Khaled Abdulaziz Al-Hasson

Board Member
Ahmed Abdullah Al-Omar

Board Member
Adel Abdul Mohsen Al-Subih

Their Eminences, Members of Al-Fatwa and Shareea'a Supervisory Board

Report of Al-Fatwa and Shareea'a Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2007, we certify confidently that all activities were practiced in compliance with Islamic Shareea'a and no violations have occurred, to the best of our knowledge.

Chairman

Sheikh Ahmad Bazie Al-Yaseen

Shareea'a Board Member

Sheikh Dr.
Khaled Mathkour Al-Mathkour

Shareea'a Board Member

Sheikh Dr.
Ajeel Jasem Al-Nashmi

Shareea'a Board Member

Sheikh Dr.
Anwar Shuaib Abdulsalam

Shareea'a Board Member

Sheikh Dr.
Mohammad Abdul Razak Al-Tabtabae

Shareea'a Board Member

Sheikh Dr.
Mohammad Fawzi Faidullah

On behalf

Kuwait Finance House

30 Years of Commitment, Leadership, and Innovation

The Management

General Manager
Mohammad Sulaiman Al-Omar

Assistant General Manger
Emad A. Al-Thaqeb

Assistant General Manger
Mohammad Naser Al-Fouzan

Assistant General Manger
Dr. Waleed Essa Al-Hasawi

Assistant General Manger
Abdul Aziz Al-Jaber

Assistant General Manger
Anwar Mohammad Al-Bader

Assistant General Manger
Ahmad Mohammad Al-Khalid

In the Name of Allah, The Beneficent, The Merciful
Speech of the Chairman & Managing Director
30 Years of Excellence

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Praise is to the Al-Mighty Allah, and peace and blessings be upon his Prophet, Muhammad, his folks, companions and followers to the Day of Judgment.

Dear Brothers and Sisters,

It gives me much pleasure to welcome you at the 29th General Assembly Meeting, and present to you the Kuwait Finance House (KFH) Annual Report for the year ending 31 December 2007, the Fatwa and Shareea'a Supervisory Board Report, the key annual achievements, the domestic, regional and global developments, consolidated financial statements of KFH and its subsidiaries, in addition to the auditors' report.

On the 23rd of March 2007, KFH celebrated its 30th anniversary, bringing to minds the distinction and superiority achieved during the last three decades through which KFH has proven to be a global banking corporation. Its business expanded rapidly towards catering to the requirements of the foreign markets, followed by a series of consecutive success stories in the local market in strict compliance with the Islamic Shareea'a Principles and Guidelines.

As we initiated our business as a Shareea'a compliant bank 30 years ago, we were dreaming of pioneering a truly successful model of an Islamic bank. Many people developed a sense of fear and skepticism believing the undertaking will be a failure. On the contrary and thanks to Allah, our Islamic model has proved to be very successful, thrived, and set an outstanding example for many Islamic financial institutions until the KFH brand name became among the leading Shareea'a compliant financial institutions both locally and regionally.

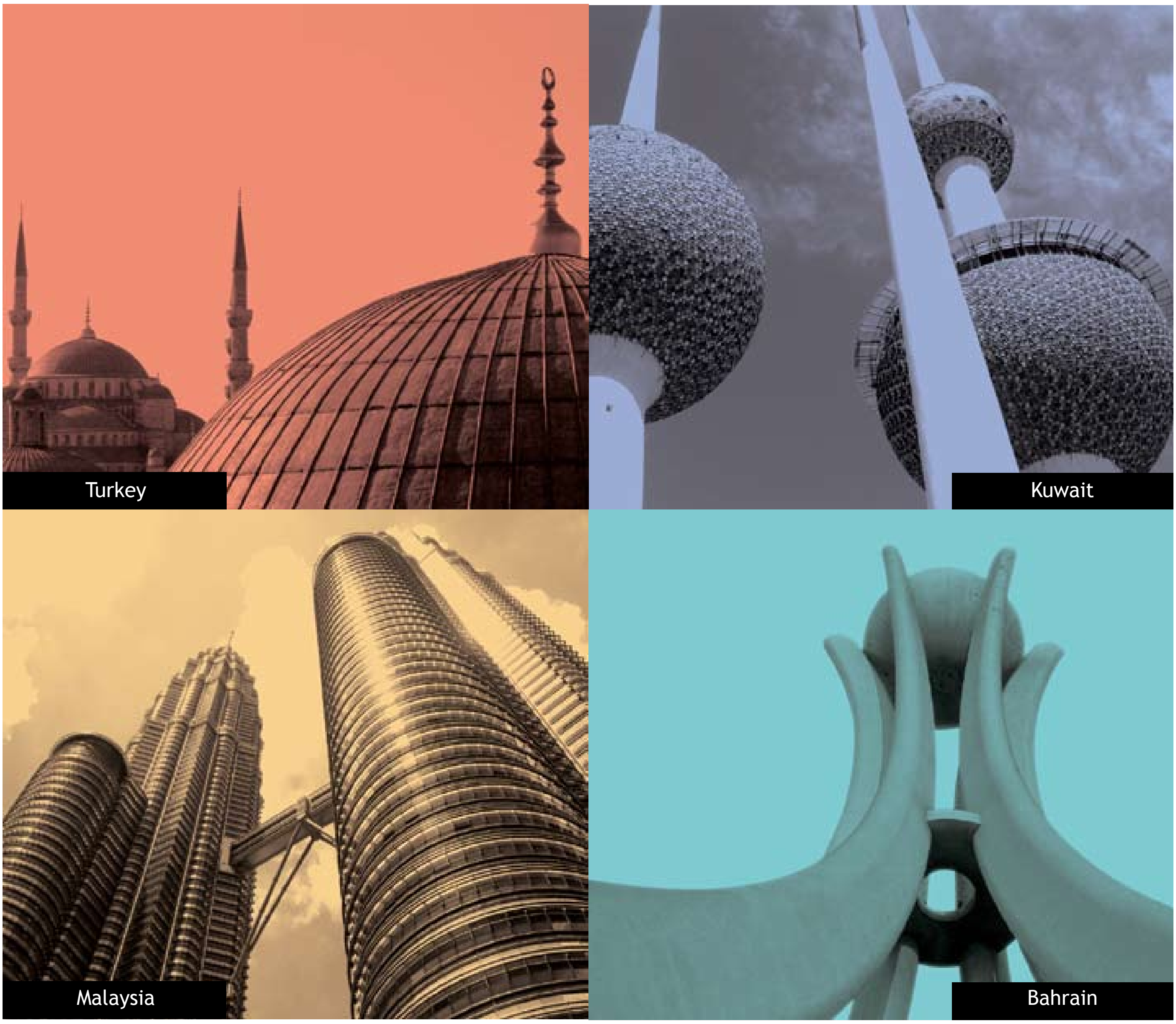
Over the years, KFH, aided by its loyal hard-working employees, has dedicated all its efforts for putting this strategic vision into effect. It attained the highest profits in the local market during the last 6 years for its shareholders and depositors. KFH also created a noticeable and well-planned presence in the global markets, turning KFH from being a single bank to be referred to as KFH Group.

KFH has focused this year on developing a new integrated strategy for the next three years based on our strict compliance with the Shareea'a regulations and our commitment towards our dear clients, shareholders and employees, so that KFH will maintain its leading role as a key Islamic financial market-maker worldwide.

Noteworthy is that the Kuwaiti economy kept on growing for the 6th successive year driven by the unprecedented increase in oil prices reaching a record ceiling, the increased amounts of crude oil, the increasing private and governmental investments, and the continuous growth of the non-oil sectors. The surplus in the State's budget is a key factor for achieving an income increase on one hand, increased expenditures on infrastructure and developmental projects on the other hand and the booming local real estate market which has been viewed on par with the Kuwait Stock Market that prospered during 2007.

The economic indices for 2007 were very positive, given the fact that KFH has achieved unique unprecedented results throughout all sectors. KFH has clearly demonstrated a strict compliance with the Central Bank of Kuwait (CBK) requirements and prepared itself for applying Basel 2 standards. KFH has also given due care to risk management aided by its specialized Risk Management and Compliance Department, combined the efforts of all supervisory departments in order to provide developed risk management criteria in compliance with the best international standards and practices, and applied the best supervisory techniques of risk assessment and management, and ensured efficiency and effectiveness of the internal control systems, information system, security systems, and anti-money laundering techniques using the recent automated control systems.

To go on with the KFH's strategy for achieving a well-planned expansion throughout the State of Kuwait and improving the workflow in all sectors, KFH has made certain improvements to the existing branches and a number of new ones.



KFH The World’s Best Islamic Financial Institution

Speech of the Chairman & Managing Director
30 Years of Excellence

Globalizing the Islamic Financial Services Industry

Based on its firm belief in reinforcing the economic and commercial bonds between Kuwait and other countries worldwide and globalizing the Islamic financial services industry, KFH has decided to expand KFH business in Turkey, Malaysia and Bahrain, which are carrying out their business in compliance with the Shareea'a Principles. Kuwait Turk Participation Bank (KFH Turkey) has been developing for almost twenty years and won many awards; the last of which was the Award of Excellence "Al-Tamayoz" given to it by the Turkish Government. In addition to that KFH Turkey has 85 branches extending throughout Turkey.

KFH Bahrain, incorporated according to the Islamic Shareea'a and fully-owned by KFH, has expanded its business and broadened its client base. To reinforce its commercial business there, KFH Bahrain has implemented several projects in collaboration with the Bahraini Government; the most prominent of which are Durrat Al Bahrain; being one of the mega developmental projects Gulf-wide, Diar Al-Mahrag, and Ashbeelia Village. These mega projects have helped re-shape the geography of Bahrain, improved its economic development, and provided distinct houses for many citizens. KFH Bahrain has also revealed its plans of establishing an investment bank in Jordan, with a capital of USD 50 million, in addition to transacting other investment deals in other countries worldwide.

To maximize the benefit of our global presence, a higher committee of KFH has been formed to monitor the economic and financial performance, implement KFH Group business strategy to play a liaison role between its branches, study the major development projects, identify the market conditions, reinforce the competitive potentialities of KFH Group, discover and identify new investment opportunities and products, and monitor compliance with KFH policies and regulations in order to ensure proper coordination and harmony inside KFH Group.

After inauguration in 2006, KFH Malaysia has gained broad popularity in Malaysia and opened two new branches in Kuala Lumpur and Shah Alam. It started to reap the gains of its projects and investments and became the main Gulf outlet to East Asia; which is considered to be the region with the most promising markets in the world and has the highest growth potential and the best investment opportunities. KFH Malaysia, has accordingly, won the "The Best Local Islamic Bank" Award, and ventured into new investments and projects through the establishment of a healthcare company and the investment in a real estate company in China. Moreover, a Sukuk Company has been incorporated with its business extending through KFH Turkey – Malaysia, and a partnership agreement in a petrochemical project in Singapore has been signed by one of its subsidiaries.

The Highest Rating for an Islamic Bank

All international ratings have unanimously stressed that KFH has high quality assets; ranking KFH as a leading bank in the region. Year 2007 is featured as a unique benchmark in KFH history, as Capital Intelligence, an international rating agency, has raised KFH's ratings from A-/A-2 to A/A-1; the first of its kind to be given to an Islamic corporation, stressing the high ranking of KFH and the multiple success stories that have attracted the regional and global attention. Moreover, KFH has continued to acquire the highest ratings from other rating agencies like Fitch Ratings Agency that increased KFH's long-term foreign currency rate forecasts from A-/Stable/F-2 to A/Stable/F-1. KFH has been rated A-/Positive/A-2 on the long and short-term by Standard and Poor's. Moody's has also raised KFH rating from A2/P-2/D to Aa3/P-1/C- for the short and long-term. These new ratings are given in recognition of the KFH new financial position, realized development, continuous improvement, innovative products, and the hi-tech information technology.

KFH Rating History

Agency	2005 Ratings	2007 Ratings	Remarks
Capital Intelligence	A - / A-2	A / A-1	long term/ short term
Fitch	A - / Stable/ F-2	A / Stable / F-1	long term/outlook/ short term
Moody's	A 2/ P-2 / D	Aa3 /P-1 / C-	long term/ short term/financial strength
Standard & Poor's	A -/ Stable/ A-2	A -/ Positive / A-2	long term/outlook/ short term

KFH has been awarded "The Best Islamic Financial Institution in the World" Award. It has been selected by the Banker Middle East Magazine to be the Best Islamic Financial Institution Worldwide in recognition of its leadership, multiple successes, and the qualitative and quantitative achievements made by KFH in the Islamic financial business. KFH also won "The Best Bank in Kuwait" Award from The Banker International Magazine.

KFH has also been awarded "The Best Islamic Institution Worldwide" Award for three successive years by Euro-Money; being a key producer and developer of Al-Ijarah product. It also attained "The Best Islamic Bank for Retail Banking Services & Credit Cards" Award. Moreover, many encouraging reports on KFH have been published by the key prestigious economic institutions worldwide.

Customer Service:

Meeting the needs of our clients is the key factor to our success. Bearing this in mind, the banking and retail services have maintained their high popularity in the local market, driven by our strategy to promote the diversified services and present an integrated set of services and products. In compliance with this strategy and to achieve more geographical expansion for KFH branches throughout the State of Kuwait, maximize the market share, and provide flexibility, quality, and instant services for a large tier of clients, KFH has increased its branches to 44 by opening 2 new branches: Al-Manshar and Ibn Khaldoun. Work is underway for rebuilding 6 branches and renovating other 6 branches, so that they will have a similar façade; demonstrating the authenticity of KFH and the spirit of this new era. The re-design will add much more space and create a business-enabled environment where fast, precise, efficient & quality services will be provided.


الشامل ATM
الشامل ATM
إيداع نقدي
إيداع فوري في الحساب
إيداع الشيكات
تودع مبالغ شيكات بيتك خلال يوم عمل واحد
تودع مبالغ شيكات البنوك المحلية خلال 3 أيام عمل
Cash Deposit
Instant credit to account
CHEQUE DEPOSIT
KFH cheques will be credited within one working day.
Other local banks cheques will be credited within 3 working days.
بيتك
أفضل بنك
2007
شكراً لعملائنا
وديعة سنوية بتوزيعات شهرية
%8.6
أعلى العوائد

Performance has been developed in two ways. First, emphasis has been placed on improving the employees' quality performance and enhancing their competencies by providing extensive training courses focused on increasing their awareness of quality, interpersonal communication skills, and use of technology for provision of more enhanced customer service. Second, the existing systems have been upgraded as new cash limit controls, returned checks procedure, and overdraft accounts system have been applied. Moreover, the necessary arrangements for processing the transactions from the banking branches to the Operations Department have been taken, and the policies, procedures, and forms manual has been established for that.

Universal, Integrated Products:

In order to enhance promotion of KFH products and services in the banking market and expanding KFH business activities, a new Marketing & Public Relations Department has been established to act as a focal point for coordinating the marketing activities among KFH sectors, regularly measure and follow up these activities, prepare the competitive marketing and environment studies, manage the relations with the advertising agencies, and perform the media and public relations role locally, regionally, and internationally in a manner that maintains the prestigious position of KFH. In addition, a new Direct Sales Unit has been established to help achieve these goals. In a step that is unique, KFH has promoted its ties with all segments of clients in line with a well-established marketing plan that is targeting new categories of non-KFH clients and applying far-reaching techniques for soliciting those clients.

KFH was the first bank to present the Point of Sale (POS) devices based on the CHIP technology. 3000 POS devices have been offered during the year. These devices support the global trends for using credit cards and offer the highest security standards to its users.

In compliance with its new strategy, the Banking Cards Department aims at launching new products that can meet the increasing needs of clients. In this context, KFH has won the "MasterCard International" Award; as KFH has been recognized to be the first bank to use the CHIP technology, and won "The Asian Banker Award" as the Asian Banker viewed the incorporation of the CHIP technology into the credit cards by KFH as one of the best Islamic products ever provided to clients so far.

Development of Electronic Channels:

KFH continued to present innovative products to its clients, enabling them to receive instant services and making sure to reach them everywhere. KFH has also launched its "KFHTrade" online trading service for its clients, designated a hall in Kaifan branch to serve as a gathering place for traders, and is currently expanding the service to include the Gulf and global markets.

KFH has worked relentlessly to develop the "Mubasher" service for the advanced stock trading purposes. The service is available for clients and allows them to track the prices of their preferred shares (only the stocks of Islamic compliant companies listed on the KSE), plus receive advanced financial analyses. KFH has also expanded the Electronic Payment Portal for its large customer base like Kuwait Airways.

KFH has also started its "Sawtak" Voice Recognition Service, which expedites access to the banking services through use of a customer-friendly system compared to the existing IVR system. The service also allows clients to make phone calls 24/7, so as to have access to the banking services all the time, increases the automated operation time, and shortens the call duration while avoiding keeping the clients on hold during peak hours. To connect more closely with our clients and identify their needs properly, the Banking Sector has established a Management Information System (MIS) for keeping and using the historical data in conducting studies and marketing research.

Extensive promotional and educational campaigns aiming at encouraging clients to get access to our direct and electronic services have been launched. To achieve this purpose, interactive computers have been installed at Al-Salam Hospital and in many branches to support and encourage use of KFH Online Service that includes more than 150 free services.

Reaching all Segments of Clients:

To reinforce KFH policy of identifying and targeting different segments of clients, we have taken certain key steps for customer segmentation in line with the best practices, in order to cater to all their banking, financing, and investment needs, integrate these services together, and promote the loyalty and satisfaction of our clients by creating a defined marketing message to each category and designing integrated systems that suit their needs and keep their privacy. For these purposes, promotions and discounts have been offered to Al-Rubban, Al-Sundus, and Al-Tamayoz clients. We also run extensive marketing campaigns through schools and youth centers to promote Shabab Al-Deera and Al-Baraem accounts.

Corporate and Real Estate Finance:

The local market comes at the top of KFH priorities, where its share is growing constantly. In this context, KFH has enhanced commercial, real estate, and corporate finance services in the local market.

Focus on Commercial Activities:

KFH has continued to maintain its leading position, as it is ranked the first in the consumer finance industry and continued to support the local market through the constant financing of the buying and selling transactions of client and supplier, which is the largest service among finance companies in Kuwait, until KFH became an example for others and attracted the attention of other banks and companies operating in other countries, which are aspiring to reinforce this type of activity through usage of the Islamic financial products.

Expertise in the Real Estate Industry

Thanks to our team of experts in the real estate industry, KFH has been able to extend its sales beyond KD 1 billion and take part in the development and construction of a number of business and investment complexes; the most important of which is the completion of Al-Dirah Tower and other residential buildings in Hawally, Salmia, and Al-Reggae. KFH is currently committed to establishing regional branches throughout the State of Kuwait to serve more clients, in addition to providing an integrated service combining both the real estate and evaluation services together besides provision of the banking, commercial, and investment services. The Local Real Estate Department is currently testing a new automated system which will enhance the quality and efficiency of the customer experience. Many promotional activities have been launched during the year including participation in the key real estate events; the most important of which is the "If it Appeals to You! Construct or Purchase It" campaign launched by KFH.

KFH has also participated in the Real Estate, Investment, and Construction Exposition, Kuwait Real Estate and Investment Exhibition, and Ramadan Real Estate Exhibition, and presented its quarterly real estate report in an innovative manner and distinct design.

To enhance the purchasing of real estate properties abroad, the Local Real Estate Department established its new center in Kuwait City supported by the Head Office in order to provide real estate and wealth management services to VIP clients, define the credit limits for them, and present well-established real estate studies and consultancies in addition to the financing and maintenance services for their properties.

Corporate Finance and Business Sector

KFH Finance Sector continued its distinguished, steady performance in the field of corporate finance for all business sectors. As a result, our client base broadened and KFH has achieved remarkable progress in running the financing activities with the key investment companies to support their activities and projects. This fiduciary relationship has, in fact, enabled these companies to maximize their assets and revenues and achieve financial surpluses that enabled them to create new investment opportunities in the State of Kuwait and abroad.

Increased Participation in KFH Group Subsidiary and Associate Companies

In light of the expansion of KFH and its subsidiary and associate companies and the capital increase in the last year, a set of decisions has been taken for increasing share capital of KFH Bahrain, Malaysia, Turkey, Development enterprises Holding Company, Al-Muthanna Investment Company, and Al-Nakheel United Real Estate Company. Total amount invested in the capital increase was roughly KD 120 million.

Human Resources

KFH is giving a significant emphasis in soliciting competent and qualified staff, in general, and Kuwaiti workforce in particular, who are able to keep up with the latest banking, investment, and commercial developments and innovations and filling the vacant jobs at KFH sectors and departments with those highly-qualified candidates. Numerically, Kuwaiti new recruits reach 72.5% of new employees at KFH, while the overall national recruits have increased to 56.2%. Oracle, the Human Resources System, has been developed to provide much more flexibility to the system users, whether managers or employees, and will be accessible from home or via the Internet soon. In addition, the HR Department has also developed certain mechanisms for communication with employees such as (Allo Mawared) for answering the employees' queries by telephone.

KFH has demonstrated its focused interest on training its employees from different KFH sectors. In addition, several students of Kuwait University and the Public Authority of Applied Education and Training (PAAET) have been trained, and around 170 male and female staff members have been trained in conjunction with the Manpower and Government Restructuring Program (MGRP).

KFH & Society

KFH continued its effective participation in the beneficial social activities carried out during the year, as it provided KD 1.250 million to Bait Al-Zakat (Kuwait Zakat House), entered into an agreement for implementation of charitable projects inside and outside Kuwait, increased the provisions allocated for the construction of 15 ambulance centers on the motorways in Kuwait worth KD 1.450 million, and participated in supporting the medical conferences and research on the early detection and diagnosis of Cancer.

Moreover, KFH has devoted itself for the construction and implementation of the Social Welfare Houses Club related to the Ministry of Social Affairs and Labor, at Al-Zour Area. KFH has established the Juvenile Care House at Sulaibikhat, financed the Care Centers for the People with Special Needs throughout the State of Kuwait, and supplied medical equipment and devices to a multitude of Ministry of Health hospitals. As far as charitable projects and Holy Qura'an projects are concerned, KFH is committed to the construction of the Holy Qura'an Recitation-Schools Center belonging to the Ministry of Awkaf. KFH has also supported the Family (Osareya) Development Association and the Holy Qura'an Institutes, Al-Seraj Al-Munir, Kuwait's Big Competition for Memorizing the Holy Qura'an, and the Knowledge Seekers Welfare Fund. As for support of education, KFH has fully equipped two laboratories at the Statistics and Research Section at Kuwait University and allocated sums for the Charitable Fund of Needy Students. Furthermore, KFH has assigned KD 0.5 million for the humanitarian relief activities in different places struck by earthquakes, hurricanes, and warfare worldwide.

Speech of the Chairman & Managing Director
30 Years of Excellence

Financial Performance Overview

Dear Sirs,

Results of the Financial Year ending 31 December 2007 showed the following:

Balance Sheet:
Total assets were KD 8.789 billion at the end of the year with an increase of KD 2.484 million, equal to 39.3% compared to 2006. As for liabilities, clients' accounts balances have reached KD 5.361 billion, with an increase of roughly KD 1.631 billion, equal to 44% compared to 2006. Shareholders' equity has reached KD 1.210 billion, with an increase of KD 508 million, equal to 72% compared to 2006.

Revenues:
Total realized revenues for this year have reached KD 831 million with an increase of KD 252 million equal to 43.5%. Profit before allocations reached KD 527 million with an increase of about KD 183 million and a growth rate of 53% compared to 2006.

Shareholders' Profits:
Net profits for shareholders reached KD 275 million with an increase of KD 113 million and a growth rate of 70% compared to 2006.

Profit Allocation:
Profits have been allocated to depositors (investors) for the Financial Year ending 31 December 2007 as per the following table:

Type of Account	2007	2006
Continuous Investment Deposits	8.632%	8.458%
Sidra Deposit	6.714%	6.578%
Saving Investment Accounts	5.755%	5.639%

Economic Developments Overview

The National Economy (Kuwait):

The Kuwaiti economy has achieved positive growth rates for the fifth successive year, and GDP in the State of Kuwait is expected to reach KD 114.5 billion in 2008 compared to KD 95.9 billion in 2006. The rising economic growth rates help increase investment and developmental projects, create new employment opportunities, and enhance the living standards. The Government policy to increase the levels of salaries, wages, and bonuses has had a positive impact on increasing the expenditure on retail goods and services, in addition to the increased wealth arising from the high share prices during most periods of the year. Strong indicators stress the growing government and corporate investments which are expected, in turn, to boost the local demand. The Kuwaiti economy has registered a growth rate of 8.8% in 2007 compared to 2006. Internal surplus in the Kuwaiti economy has been enhanced, given that the 2006/2007 budget has achieved a real surplus amounting to KD 5,202 million; being the ninth actual surplus and the second highest surplus to be achieved throughout the last ten years.

The said growth in 2007 is attributed to the development achieved in terms of the high oil prices and total exports reaching an unprecedented record level, with the oil barrel hitting USD 100 at the end of 2007.

High inflation rates are a main source of concern for the economic policy makers, taking the successive price increases into consideration. Inflation rate at the end of September 2007 has reached 7.3% as compared to the same period of last year, and 4.1% during 2005 as compared to 1.3% during 2004, then it retrograded to 3% in 2006 and soared again in 2007. This inflation increases the costs of living and decreases the income. Some analysts believe that high prices are closely connected to the imported inflation, given the fact that Kuwait is importing consumable goods, besides the prices of foodstuffs that reached a record increase in prices worldwide reaching 12.5% in 2007 and 10% in 2006.

The Central Bank of Kuwait (CBK) has taken a resolution on May 20, 2007 connecting the Kuwaiti Dinar to the currency basket in light of the ongoing decline in the US Dollar against the key currencies during 2002-2007, noting the average exchange rate of US dollar retrograded by 29.4%.

GCC Economy:

GCC economies have grown positively and steadily in terms of the growth rates and rates of surpluses in the current accounts. This growth is expected to exceed the worldwide recorded growth for the successive eighth Year. Growth in the region is expected to settle at 5.4% during 2007-2008, whereas the world growth may fall below 5% supported by the record price increase in oil products. The GCC GDP is expected to reach USD 883.6 billion in 2008 compared to USD 790.7 billion in 2007 and USD 712.4 billion in 2006.

The International Monetary Fund (IMF) has forecasted that the Qatar GDP will reach USD 65.8 billion, USD 189.6 billion in UAE, USD 103.4 billion in Kuwait, USD 16.9 billion in Bahrain, USD 40.5 billion in Oman, and USD 374.6 billion in KSA.

Nominal GDP for Oil Exporters
In billions of U.S. Dollars

State	Avg. 1998--2002	2003	2004	2005	2006	Est. 2007	Proj 2008
	7.4	9.7	11.1	13.4	15.4	16.9	18.6
	33.4	47.8	59.3	80.8	95.9	103.4	114.5
	18.0	21.8	24.7	30.8	36.0	40.5	45.4
	15.5	23.5	31.7	42.5	52.7	65.8	82.8
	173.6	214.9	250.7	315.8	349.1	374.5	407.0
	63.6	88.6	103.8	133.0	163.3	189.6	215.3
Total	311.5	406.3	481.3	616.3	712.4	790.7	883.6

Source: IMF

The Qatari economy has achieved a remarkable progress reaching a 14.2% growth rate in 2007 accompanied with a surplus in the State's budget. The Omani economy has achieved a growth rate of 4.1%; 7.7% for UAE; 6.8% for Bahrain economy; and 8.8% for the Kuwaiti economy in 2007.

World Economy:

Despite the latest financial fluctuations, the world economy is still qualified for achieving a strong, ongoing growth in 2008, and in 2007 though slower if compared to 2006, supported by the sound economic foundations in general and the rising, emerging economies. However, the sound financial positions helped to limit the adverse consequences arising out of the US subprime market crisis as well as the inflation pressures. The IMF expects that the world economic growth will move slowly during 2008 until it may settle at 4.1% to be less than the growth rate registered at 4.9% in 2007 caused by the decline of growth in the US to 1.5% in the coming year compared to 2.2% in 2007 and 2.9% in 2006.

Adverse impacts of the US Sub-prime mortgage market crisis are expected to continue and may cause a broader influence on the US economy due to the high increase in the default repayment, failure in repayment, and the ongoing declining prices of real estate properties throughout the US, with an indicator of a decline in prices in many key urban communities and a decrease in the real estate investments by 19% (annual growth) during the second half of the year. There has been a decline in the purchases of equipment by the business sector, and slow demand and a rise in the inventory levels in the transformational industries sector; namely, the vehicles and related industries. However, the financial standing of the family business has proven to be strong.

The growth rate in the Euro area is expected to decline to 1.6% during 2008, after it has achieved its fastest growth rates in the last years with a strong demand on it. The economy of Western Europe boomed during 2006 and 2007 as the GDP in the Euro area reached 2.8% during 2006 and 2.6% in 2007; double the growth rate recorded in 2005 and the highest rate since 2000. Germany has been the key growth driver supported by the strong growth in exportation and well-established investment, due to the remarkable improvement in its competitive ability and the prospering corporate sector over the last years.

The Growth rate of the GDP in Japan was expected to decline to 1.9% through 2007. Consumption is expected to flourish to considerably balance the negligible decline in exportations affected by the expected decline in the world growth at 2008. On the positive side, the current account surplus was very close to 4% of the GDP in 2006 supported by the active exportations and returns generated from the foreign assets.

The Asian economy is still growing rapidly, driven by the vigorous growth in India, China, and Russia. These three countries alone have accounted for half of the world growth during the last year. The growth rate in China is expected to keep on growing during 2008, after it reached 11.4% during 2007 and 11.1% in 2006. The growth rate in India was noticeable reaching 8.4% in 2007, yet, is expected to decline to 6.8% during 2008. Prospects of growth in the region are still positive for the near future. GDP is expected to decline during the current year and the coming year, and may probably settle at a high level, due to the modest decline in the growth of both China and India caused by the growing trend of hardening the policies and the slow growth of the industrial economies arising out of the lowered demand on exportations.

In conclusion, we wholeheartedly thank Allah for his countless blessings, and call upon Allah to help us achieve KFH goals and objectives successfully in order to ensure what is good for our beloved nation and valuable clients, driven by the wise leadership of H.H Emir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, H.H Crown Prince Sheikh Nawaf Al-Jaber Al-Ahmad Al-Jaber Al-Sabah, H.E Prime Minister Sheikh Nasser Mohammad Al-Ahmad Al-Sabah, may Allah bless all of them. I would like to seize the opportunity to express my gratitude for all official authorities, respectful clients, and KFH staff members who do not hold back any effort to support the progress and cause of this great Islamic financial institution.

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of Kuwait Finance House K.S.C

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group), which comprise consolidated balance sheet as of 31 December 2007, the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The bank's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adapted for use by the state of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 for 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 the bank's management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2007, the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the bank and the consolidated financial statements, together with the contents of the report of the bank's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the group or on its 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 organisation of banking business, and its related regulations during the year ended 31 December 2007.

WALEED A. AL OSAIMI
Licence NO. 68 A
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

JASSIM AHMAD AL-FAHAD
Licence NO. 53 A
DELOITTE
AL-FAHAD & CO.

7 January 2008
Kuwait

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Note	*2007 KD 000's*	2006 KD 000's
INCOME			
Murabaha, wakala, istisna'a and leasing income	34	466,893	327,523
Investment income	3	266,397	183,249
Fee and commission income		56,125	44,008
Net gain from dealing in foreign currencies		14,696	3,332
Other income		27,037	20,875
		831,148	578,987
EXPENSES			
Staff costs		73,783	72,269
General and administrative expenses		48,134	38,863
Murabaha and ijara costs		65,712	32,041
Depreciation		27,939	33,754
Provision for impairment	4	38,179	27,180
		253,747	204,107
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		577,401	374,880
Distribution to depositors	14	242,528	176,362
PROFIT AFTER DISTRIBUTION		334,873	198,518
Contribution to Kuwait Foundation for the Advancement of Sciences		2,847	1,673
National Labour Support tax		6,257	3,465
Directors' fees	18	200	150
Zakat (based on Zakat Law No. 46/2006)	2	174	-
PROFIT FOR THE YEAR		325,395	193,230
Attributable to:			
Equity holders of the bank		275,266	162,004
Minority interest		50,129	31,226
		325,395	193,230
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	5	166 fils	102 fils

The attached note 1 to 34 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Note	2007 KD 000's	2006 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	6	553,565	231,996
Short-term international murabaha		1,067,291	1,050,599
Receivables	7	3,988,131	2,778,166
Trading properties		126,413	90,463
Leased assets	8	930,657	647,939
Available for sale investments	9	896,098	583,351
Investment in associates	10	341,279	210,538
Investment properties	11	247,300	191,407
Other assets		239,694	128,327
Property and equipment	12	407,488	401,005
TOTAL ASSETS		8,797,916	6,313,791
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	13	1,186,391	1,080,004
Depositors' accounts	14	5,361,155	3,729,930
Other liabilities		380,853	289,325
TOTAL LIABILITIES		6,928,399	5,099,259
DEFERRED REVENUE		374,608	299,263
FAIR VALUE RESERVE	15	86,843	66,654
FOREIGN EXCHANGE TRANSLATION RESERVE	16	1,972	8,683
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	17	171,535	122,525
Share premium		464,735	188,788
Proposed issue of bonus shares	18	34,307	18,379
Reserves	19	427,925	302,958
		1,098,502	632,650
Proposed cash dividend	18	111,498	69,839
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		1,210,000	702,489
Minority interest		196,094	137,443
TOTAL EQUITY		1,406,094	839,932
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		8,797,916	6,313,791

BADER ABDUL MUHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMMED SULAIMAN AL-OMAR
(GENERAL MANAGER)

The attached note 1 to 34 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the bank												Minority interest	Total equity
				Reserves										
	Share capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Employee share option reserve KD 000's	Treasury shares KD 000's	Profit for the year KD 000's	Sub total KD 000's	Sub total KD 000's	Proposed cash dividends KD 000's	Sub total KD 000's	KD 000's	KD 000's
At 31 December 2005	109,397	188,465	13,128	169,386	60,944	-	(1,278)	-	229,052	540,042	60,168	600,210	80,420	680,630
Issue of bonus shares	13,128	-	(13,128)	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	323	-	-	-	-	-	-	-	323	-	323	-	323
Cost of employee share option						4,237			4,237	4,237		4,237		4,237
Zakat	-	-	-	-	(5,091)	-	-	-	(5,091)	(5,091)	-	(5,091)	-	(5,091)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	(60,168)	(60,168)	-	(60,168)
Profit for the year	-	-	-	-	-	-	-	162,004	162,004	162,004	-	162,004	31,226	193,230
Distribution of net profit:														
Proposed issue of bonus shares	-	-	18,379	-	-	-	-	(18,379)	(18,379)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	(69,839)	(69,839)	(69,839)	69,839	-	-	-
Transfer to statutory reserve	-	-	-	16,729	-	-	-	(16,729)	-	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	57,057		-	(57,057)	-	-	-		-	
Net movement in treasury shares	-	-	-	-	-	-	974	-	974	974	-	974	-	974
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	25,797	25,797
At 31 December 2006	122,525	188,788	18,379	186,115	112,910	4,237	(304)	-	302,958	632,650	69,839	702,489	137,443	839,932
Issue of bonus shares	18,379	-	(18,379)	-	-	-	-	-	-	-	-	-	-	-
Issue of shares for cash	30,631	275,681	-	-	-	-	-	-	-	306,312	-	306,312	-	306,312
Cash received on cancellation of share options	-	266	-	-	-	-	-	-	-	266	-	266	-	266
Zakat (Note 2)	-	-	-	-	(5,804)	-	-	-	(5,804)	(5,804)	-	(5,804)	-	(5,804)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	(69,839)	(69,839)	-	(69,839)
Profit for the year	-	-	-	-	-	-	-	275,266	275,266	275,266	-	275,266	50,129	325,395
Distribution of net profit:														
Proposed issue of bonus shares	-	-	34,307	-	-	-	-	(34,307)	(34,307)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	(111,498)	(111,498)	(111,498)	111,498	-	-	-
Transfer to statutory reserve	-	-	-	28,474	-	-	-	(28,474)	-	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	100,987		-	(100,987)	-	-	-		-	-
Net movement in treasury shares	-	-	-	-	-	-	1,310	-	1,310	1,310	-	1,310	-	1,310
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	8,522	8,522
At 31 December 2007	**171,535**	**464,735**	**34,307**	**214,589**	**208,093**	**4,237**	**1,006**	**-**	**427,925**	**1,098,502**	**111,498**	**1,210,000**	**196,094**	**1,406,094**

The attached note 1 to 34 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2007

	Note	2007 KD 000's	2006 KD 000's
OPERATING ACTIVITIES			
Profit for the year		325,395	193,230
Adjustment for:			
Depreciation		27,939	33,754
Provision for impairment		38,179	27,180
Dividend income		(24,326)	(28,467)
Gain on part sale of associates and subsidiaries		(76,973)	(11,381)
Gain on sale of available for sale investment		(59,395)	(49,165)
Share of results of associates		(45,422)	(51,085)
Other investment income		(1,040)	(6,025)
Operating profit before changes in operating assets and liabilities		184,357	108,041
(Increase) decrease in operating assets:			
Exchange of deposits		(6,224)	4,727
Receivables		(1,593,999)	(972,881)
Trading properties		(35,950)	2,546
Leased assets		(288,420)	(44,606)
Other assets		(116,626)	(71,126)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		106,386	798,387
Depositors' accounts		1,631,224	540,586
Other liabilities		99,893	96,927
Deferred revenue		75,348	64,024
Net cash from operating activities		55,989	526,625
INVESTING ACTIVITIES			
Net (purchase) sale of available for sale investments		(237,245)	38,186
Purchase of investment properties		(57,360)	(70,020)
Purchase of property and equipment		(32,769)	(264,812)
Net movement in investment in associates		(13,522)	(12,925)
Dividend income received		24,326	28,467
Net cash used in investing activities		(316,570)	(281,104)
FINANCING ACTIVITIES			
Issue of shares		306,312	-
Cash dividends paid		(69,839)	(60,168)
Cash received on cancellation of share options		266	323
Payment of Zakat		(5,804)	(5,091)
Net movement in treasury shares		1,310	974
Net cash from (used in) financing activities		232,245	(63,962)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(28,336)	181,559
Cash and cash equivalents at 1 January		883,141	701,582
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	854,805	883,141

The attached note 1 to 34 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

1 ACTIVITIES

The consolidated financial statements of the group for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the banks' board of directors on 7 January 2008 and were approved by the Central Bank of Kuwait. The general assembly of the equity holders of the bank has the power to amend these consolidated financial statements after issuance.

The group comprises Kuwait Finance House K.S.C. (the bank) and its consolidated subsidiaries (the group) as noted in Note 20. The bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practising usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins which can be settled in cash or on instalment credit basis. The bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic Shareea'a, as approved by the bank's Fatwa and Shareea'a Supervisory Board.

The bank operates through 44 local branches (2006: 42) and employed 1,969 employees as of 31 December 2007 (2006: 1,809) of which 1,110 (2006: 973) are Kuwaiti nationals representing 56% (2006: 54%) of the bank's total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The accounting policies are consistent with those used in the previous year, except for the disclosures mandated by the new IFRS adopted by the group as described below and the new Kuwait Zakat law regulations as noted under "Zakat" below.

The group has adopted IFRS 7 'Financial Instruments: Disclosures' and amendments to IAS 1 'Presentation of Financial Statements' effective for the year ended 31 December 2007 which has resulted in amended and additional disclosures relating to financial instruments and associated risks, capital and capital management (See Notes 4, 24, 26, 27, 28, 29 and 30). In accordance with transitional requirements of the standards, the group has provided full comparative information.

New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the IASB, but are not yet effective:

IFRS 8: Operating Segments (effective 2009)
IFRIC 13: Customer Loyalty Program (effective 2008)
Additional disclosures will be made in the financial statements when these standard and interpretation becomes effective.

Basis of consolidation

The consolidated financial statements include the financial statements of the bank for the year ended 31 December 2007 and its subsidiaries prepared to a date not earlier than three months of the bank's reporting date as noted in Note 20. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

Since the subsidiaries' financial statements used in the consolidation are drawn up to different reporting dates, adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and the bank's reporting date.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or upto the date of disposal, as appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the bank's shareholders' equity. Acquisition of minority interests are accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognised directly in the income statement in the year of acquisition.

Short-term international murabaha
Short-term international murabaha are financial assets originated by the group and represent deals with high credit quality international banks and financial institutions maturing within three months of the balance sheet date. These are stated at amortised cost.

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

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

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

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

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

Impairment is determined as follows:
(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) 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 Central Bank of Kuwait instructions, a minimum general provision on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

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 income statement to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognised in the fair value reserve.

Recognition and derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired, or
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees
In the ordinary course of business, the group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected payments less the unamortised premium, is charged to the consolidated income statement.

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

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

Available for sale investments
Investments are initially recognised at cost (including transaction costs associated with the acquisition of the investment) and are subsequently remeasured to fair value unless fair value cannot be reliably determined. Changes in fair value are reported in the fair value reserve until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously included within the fair value reserve is included within investment income in the consolidated income statement.

Investments in associates
An associate is an entity over which the group exerts significant influence. Investments in associates are accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The group recognises in the consolidated income statement its share of the total recognised profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the group's share in the associate arising from changes in the associate's equity. The group's share of those changes is recognised directly in equity, fair value reserve or foreign exchange translation reserve as appropriate.

Unrealised gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. 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.

The associate's financial statements are prepared either to the bank's reporting date or to a date not earlier than three months of the bank's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the associates and the bank's reporting date.

Trading properties
Trading properties are carried at the lower of cost or market value determined on an individual basis.

Investment properties
Investment properties are initially recorded at cost including associated transaction costs. Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life.

Impairment of non-financial assets
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

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. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

• Aircraft and engines	18 years (from the date of original manufacture)
• Buildings	20 years
• Motor vehicles	3 years
• Furniture, fixtures and equipment	3-5 years

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

Fair values
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

Investments
For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

Investment properties
For local investment properties, fair value is determined by the group's specialist resources which have relevant experience in the local property market. For overseas investment properties, fair value is determined based on external valuations by independent, registered real estate valuers.

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

IFRS 2 "Share-Based Payment"
IFRS 2 "Share-Based Payment" requires an expense to be recognised where the group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions").

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

Equity-settled transactions
The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the fair value of the granted shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognised in the consolidated income statement.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognised for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the Board of Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

i) Income from murabaha and istisna'a is recognised on a weighted time apportionment basis.
ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.
iii) Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
iv) Rental income from investment properties is recognised on an accruals basis.
v) Dividend income, including dividend income on own shares (held on behalf of depositors), is recognised when the right to receive payment is established.
vi) Fee and commission income is recognised at the time the related services are provided.

Zakat

In accordance with its internal guidelines, the bank calculates Zakat at 2.577% on the opening reserves of the bank (excluding proposed distributions) which have remained for one complete fiscal year and is paid under the direction of the bank's Al-Fatwa and Shareea'a Supervisory Board. Such Zakat is charged to voluntary reserve.

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

Foreign currency translation

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

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to general and administrative expenses in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the bank's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year except for entities operating in hyper inflationary economies. The results of entities operating in hyper inflationary economies are translated into the bank's presentation currency at period end exchange rates. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated income statement.

On equity accounting, the carrying value of the associates is translated into the bank's presentation currency at the period end rates of exchange and the results of the associates are translated into Kuwaiti dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognised in the consolidated income statement.

Trade and settlement date accounting

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

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash, tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions and international murabaha contracts and exchange of deposits maturing within three months of contract date.

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 the consolidated balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements
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 on the amounts recognised in the consolidated financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit and loss account, or available for sale.

The group classified all of its investments as available for sale.

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.

Classification of real estate property
Management decides on acquisition of a real estate property whether it should be classified as trading, investment property or under development

The group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The group classifies property as property under development if it is acquired with the intention of development.

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

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

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

3 INVESTMENT INCOME

	2007	2006
	KD 000's	KD 000's
Income from sale of trading properties	**43,279**	25,610
Rental income	**15,962**	11,516
Dividend income	**24,326**	28,467
Gain on part sale of associates by subsidiaries (Note 10)	**62,955**	2,092
Gain on part sale of subsidiaries	**14,018**	9,289
Gain on sale of available for sale investments	**59,395**	49,165
Share of results of associates (Note 10)	**45,422**	51,085
Other investment income	**1,040**	6,025
	266,397	183,249

During the year, the bank disposed of its entire investment in one of its real estate funds and recorded a gain of KD 27,570 thousand after retaining KD 16,288 thousand for taxation and other expenses pending finalisation of tax liability with the concerned tax authorities (included within gain on sale of available for sale investments).

4 PROVISION FOR IMPAIRMENT

	2007 KD 000's	2006 KD 000's
Provision for impairment of receivables :		
International murabahas	(992)	1,709
Local murabahas	9,831	16,510
Istisna'a and other receivables	8,542	(2,780)
	17,381	15,439
Provision for impairment of leased assets	6,252	1,560
Provision for impairment of available for sale investments	7,001	-
Provision for impairment of other assets	7,545	10,181
	38,179	27,180

5 EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK

Basic and diluted earnings per share are based on the profit for the year attributable to equity holders of the bank of KD 275,266 thousand (2006: KD 162,004 thousand) and the weighted average number of ordinary shares outstanding during the year of 1,656,143 thousand (2006: 1,581,698 thousand) excluding the weighted average number of treasury shares held by the group.

The earnings per share of the previous year has been restated for the bonus and rights issue shares during the year ended 31 December 2007.

The distributable earnings per share of the current year after adjustment for the impact of the capital increase from 1 January 2007 and bonus shares issued during 2007 was 161 fils per share.

6 CASH AND CASH EQUIVALENTS

	2007 KD 000's	2006 KD 000's
Cash	38,630	45,901
Balances with Central Banks	350,398	141,942
Balances with banks and financial institutions - current accounts	84,379	42,880
Balances with banks and financial institutions - exchange of deposits	80,158	1,273
Cash and balances with banks and financial institutions	553,565	231,996
Short-term international murabaha – maturing within 3 months of contract date	157,945	428,390
Tawarruq balances with Central Bank of Kuwait (included within short-term international murabaha)	149,519	222,755
Exchange of deposits – maturing after 3 months of contract date	(6,224)	-
Cash and cash equivalents	854,805	883,141

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

	2007 KD 000's	2006 KD 000's
Due from banks and financial institutions	167,587	168,589
Due to banks and financial institutions	(87,429)	(234,995)
	80,158	(66,406)

Included in the consolidated balance sheet as net balances:

	2007 KD 000's	2006 KD 000's
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	80,158	1,273
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 13)	-	(67,679)
	80,158	(66,406)

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

7 RECEIVABLES

Receivables principally comprise murabaha and istisna'a balances and are stated net of provision for impairment as follows:

	2007 KD 000's	2006 KD 000's
International murabahas	**813,330**	666,722
Local murabahas	**2,955,664**	2,023,715
Istisna'a and other receivables	**370,492**	252,184
	4,139,486	2,942,621
Less: provision for impairment	**(151,355)**	(164,455)
	3,988,131	2,778,166

The distribution of receivables is as follows:

	2007 KD 000's	2006 KD 000's
Industry sector		
Trading and manufacturing	**1,059,330**	995,848
Banks and financial institutions	**2,235,740**	1,323,712
Construction and real estate	**604,684**	487,938
Other	**239,732**	135,123
	4,139,486	2,942,621
Less: provision for impairment	**(151,355)**	(164,455)
	3,988,131	2,778,166

	2007 KD 000's	2006 KD 000's
Geographic region		
Middle East	**3,192,378**	2,333,842
Western Europe	**265,290**	48,666
Other	**681,818**	560,113
	4,139,486	2,942,621
Less: provision for impairment	**(151,355)**	(164,455)
	3,988,131	2,778,166

Provisions for losses on receivables from customers for finance facilities are as follows:

	Specific		General		Total	
	2007 KD 000's	2006 KD 000's	*2007 KD 000's*	2006 KD 000's	*2007 KD 000's*	2006 KD 000's
Balance at beginning of year	**99,647**	90,787	**64,808**	58,229	**164,455**	149,016
Provided during the year	**7,971**	8,860	**9,410**	6,579	**17,381**	15,439
Amounts written off	**(29,384)**	-	**(1,097)**	-	**(30,481)**	-
Balance at end of year	**78,234**	99,647	**73,121**	64,808	**151,355**	164,455
International murabahas	**1,260**	26,547	**7,008**	5,332	**8,268**	31,879
Local murabahas	**70,175**	66,486	**60,872**	55,809	**131,047**	122,295
Istisna'a and other receivables	**6,799**	6,614	**5,241**	3,667	**12,040**	10,281
	78,234	99,647	**73,121**	64,808	**151,355**	164,455

7 RECEIVABLES (continued)

At 31 December 2007, non-performing finance facilities amounted to KD 109,179 thousand (2006: KD 120,244 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion KD 000's	Post liberation KD 000's	Total KD 000's
2007			
Finance facilities	**6,368**	**102,811**	**109,179**
Provisions	**6,368**	**71,866**	**78,234**
2006			
Finance facilities	31,693	88,531	120,224
Provisions	31,693	67,954	99,647

The provision charge for the year on unfunded facilities is KD 134 thousand (2006: KD 1,362 thousand). The available provision on unfunded facilities of KD 6,684 thousand (2006: KD 6,550 thousand) is included under other liabilities.

The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 2% 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 restricted 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 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Provisions include certain amounts purchased by the Central Bank of Kuwait. Such provisions must be ceded to the Central Bank of Kuwait when they are no longer required.

Whenever necessary, murabaha receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real estate murabaha receivables are secured by mortgage on the underlying property.

Receivables from banks and financial institutions comprise mainly murabaha transactions with high credit quality institutions.

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

8 LEASED ASSETS

The net investment in leased assets comprises the following:

	2007 *KD 000's*	2006 KD 000's
Gross investment	**995,356**	695,235
Unearned revenue	**(45,911)**	(34,210)
Provision for impairment	**(18,788)**	(13,086)
	930,657	647,939

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

	2007 *KD 000's*	2006 KD 000's
Within one year	**589,539**	355,679
One to five year	**275,887**	267,350
After five years	**129,930**	72,206
	995,356	695,235

The unguaranteed residual value of the leased assets at 31 December 2007 is estimated at KD Nil (2006: KD Nil).

9 AVAILABLE FOR SALE INVESTMENTS

	2007 *KD 000's*	2006 KD 000's
Available for sale investments comprise:		
Quoted equity investments	**81,253**	68,612
Unquoted equity investments	**270,034**	143,721
Managed portfolios (comprising quoted equity investments)	**173,836**	69,484
Mutual funds	**109,343**	150,528
Sukook	**261,632**	151,006
	896,098	583,351
Investments carried at fair value	**544,664**	300,845
Investments carried at cost less impairment	**351,434**	282,506
	896,098	583,351

Included in managed portfolios is an amount of KD 36,535 thousand (2006: KD 20,045 thousand) which represents the group's investment in 12,956 thousand (2006: 9,280 thousand) of the bank's shares on behalf of depositors, equivalent to 0.76% of the total issued share capital at 31 December 2007 (2006: 0.76%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

10 INVESTMENT IN ASSOCIATES

The group's associates primarily consist of the following:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2007	2006			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	27	27	Kuwait	Islamic Takaful insurance	30 September 2007
Gulf Investment House K.S.C. (Closed)	25	26	Kuwait	Islamic investments	30 September 2007
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2007
National Bank of Sharjah PJSC	20	20	United Arab Emirates	Islamic banking services	30 September 2007
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	16	Kuwait	Leasing and Islamic investments	30 September 2007
Indirect investments in associates held through consolidated subsidiaries:					
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	-	13	Kuwait	Real estate projects management	30 September 2007
Educational Holding Group K.S.C.	-	32	Kuwait	Educational services	Sold during the year
The International Leasing and Investment Company K.S.C. (Closed)	-	33	Kuwait	Leasing and Islamic investments	Sold during the year

10 INVESTMENT IN ASSOCIATES (continued)

Carrying amount of investment in associates:	*2007* *KD 000's*	2006 KD 000's
At 1 January	**210,538**	142,734
Additions	**185,505**	35,353
Disposals	**(78,965)**	(11,642)
Share of results of associates (Note 3)	**45,422**	51,085
Dividends received	**(16,147)**	(8,684)
Share of changes in associates' fair values reserve (Note 15)	**51**	2,773
Foreign exchange translation adjustment	**(5,125)**	(1,081)
At 31 December	**341,279**	210,538

During the year, the major acquisitions and disposals of equity interest in certain associates, mainly through a subsidiary, are as follows:

Acquisitions:

	% Holding acquired	*Purchase consideration KD 000's*	*Fair value of net assets KD 000's*	*Goodwill KD 000's*	*Country of registration*
United Capital Bank	40.0	18,821	7,011	11,810	Sudan
Kuwait Energy Company K.S.C.C.	41.9	21,810	21,118	692	Kuwait
Sokouk Exchange Center - Tadawol	30.0	11,843	11,554	289	Bahrain
Sudan Airways Company Ltd.	49.0	15,482	15,482	-	Sudan
Sukuk Holding Company	27.0	31,000	31,000	-	Kuwait
Arabian Sea Real Estate Company K.S.C.	20.0	8,800	8,800	-	Kuwait
		107,756	94,965	12,791	

The goodwill arising on the acquisitions has been determined on a provisional basis. However, for Sudan Airways Company Ltd., the group is still in the process of identifying the fair value of net assets acquired and accordingly no goodwill has been determined as at the balance sheet date.

Disposals:

Name of the company	*% holding sold*	*Carrying value (including goodwill) KD 000's*	*Sales consideration KD 000's*	*Gain on sale KD 000's*
Munsh'at Real Estate Project Company K.S.C. (Closed)	13.4%	20,410	36,671	16,261
Educational Holding Group K.S.C. (Closed)	32.3%	18,485	31,652	13,167
The International Leasing and Investment Company K.S.C. (Closed)	33.3%	22,865	51,730	28,865
		61,760	120,053	58,293

10 INVESTMENT IN ASSOCIATES (continued)

	2007 KD 000's	2006 KD 000's
Share of associates' assets and liabilities:		
Assets	763,083	447,165
Liabilities	(466,682)	(261,725)
Net assets	296,401	185,440

	2007 KD 000's	2006 KD 000's
Share of associates' revenue and results:		
Revenue	93,167	71,620
Results	45,422	51,085
Share of associates' capital commitments	-	3,592

Investments in associates with a carrying amount of KD 108,825 thousand (2006: KD 120,913 thousand) have a fair value of KD 196,294 at 31 December 2007 (2006: KD 213,762 thousand). The remaining associates with a carrying value of KD 232,454 are unquoted companies and reliable fair values are not available.

The carrying amount of investments in associates includes goodwill of KD 44,878 thousand (2006: KD 25,098 thousand).

11 INVESTMENT PROPERTIES

	2007 KD 000's	2006 KD 000's
At 1 January	191,407	124,198
Purchases	70,164	74,376
Disposals	(12,297)	(4,356)
Depreciation charged for the year	(1,776)	(1,971)
Impairment losses charged	(198)	(840)
At 31 December	247,300	191,407
Cost	265,721	210,517
Accumulated depreciation	(13,967)	(11,681)
Impairment	(4,454)	(7,429)
	247,300	191,407

The purchases during the year include investment properties with a carrying value of KD 36,772 (2006: KD 35,830 thousand acquired for rental purposes by a subsidiary. These properties and their rental income are mortgaged and assigned against murabaha payable amounting to KD 30,486 thousand.

The fair value of investment properties at the balance sheet date is KD 284,727 thousand (2006: KD 237,760 thousand).

12 PROPERTY AND EQUIPMENT

	Land	Buildings	Aircraft and engines	Furniture, fixtures and equipment	Motor vehicles	Properties under development	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cost							
At 1 January 2007	9,734	63,755	260,337	54,537	40,940	69,009	498,312
Additions	3,531	12,808	33,755	11,921	18,010	17,431	97,456
Disposals	(3,404)	(1,582)	(34,319)	(1,461)	(26,805)	(9,672)	(77,243)
At 31 December 2007	**9,861**	**74,981**	**259,773**	**64,997**	**32,145**	**76,768**	**518,525**
Depreciation							
At 1 January 2007	-	31,995	24,727	34,883	5,702	-	97,307
Depreciation charge for the year	-	1,640	10,281	7,136	7,106	-	26,163
Relating to disposals	-	(335)	(6,245)	(337)	(5,516)	-	(12,433)
At 31 December 2007	**-**	**33,300**	**28,763**	**41,682**	**7,292**	**-**	**111,037**
Net carrying amount							
At 31 December 2007	**9,861**	**41,681**	**231,010**	**23,315**	**24,853**	**76,768**	**407,488**
At 31 December 2006	9,734	31,760	235,610	19,654	35,238	69,009	401,005

Included in property and equipment are the head office building and all branches of the bank constructed on land leased from the Government of Kuwait. The ownership of the buildings as well as the net rental income from these buildings are attributable only to the equity holders of the bank.

Buildings include the investment in Al-Muthana Complex in Kuwait which is constructed on land leased from the Government of Kuwait. The ownership of the building, as well as any results from the activities relating to the complex, are attributed only to the equity holders of the bank.

One of the subsidiaries holds aircraft with carrying value of KD 162,580 thousand acquired under finance leases. The aircraft are secured against the finance leases with the legal title of the aircraft being retained by the lender (Note 13).

The residual value of the aircraft fleet of a subsidiary is estimated at approximately 30% (in aggregate) of the purchase cost of the aircraft fleet.

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 154,083 thousand (2006: KD 174,611 thousand) and is receivable as follows:

	2007	2006
	KD 000's	KD 000's
Income receivable within one year	**29,740**	31,233
Income receivable within one year to five years	**85,404**	86,552
Income receivable after five years	**38,939**	56,826
	154,083	174,611

13 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2007	2006
	KD 000's	KD 000's
Current accounts	**4,772**	3,831
Murabaha payable	**1,069,823**	890,518
Exchange of deposits (Note 6)	**-**	67,679
Obligations under finance leases (Note 12)	**111,796**	117,976
	1,186,391	1,080,004

The fair values of balances due to banks and financial institutions do not differ from their respective book values.
Property and equipment include 14 aircraft acquired by a subsidiary under finance leases denominated in US Dollars with maturities varying between 5 and 12 years. The finance leases bear effective finance costs of 4.6% - 6.6% per annum and are secured by the aircraft (Note 12). The instalments payable within one to five years are KD 48,194 thousand and instalments payable after five years are KD 65,814 thousand.

14 DEPOSITORS' ACCOUNTS

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

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

ii) Investment deposits comprise Mustamera and Al-Sedra deposits for unlimited periods and Tawfeer savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

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

The bank generally invests approximately 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Al-Sedra") and 60% of investment savings accounts ("Tawfeer"). The bank guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the bank, on the grounds of Islamic Shareea'a. Investing such Qard Hasan is made at the discretion of the board of directors of the bank, the results of which are attributable to the equity holders of the bank.

b) On the basis of the results for the year, the board of directors of the bank have determined the depositors' share of profit at the following rates:

	2007	2006
	% per annum	% per annum
Investment deposits - ("Mustamera")	**8.632**	8.458
Investment deposits - ("Al-Sedra")	**6.714**	6.578
Investment savings accounts ("Tawfeer")	**5.755**	5.639

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

15 FAIR VALUE RESERVE

Changes in the fair value of available for sale investments are reported in the fair value reserve. Management of the bank is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion within equity attributable to the equity holders of the bank.

The movement on the fair value reserve is analysed as follows:

	2007	2006
	KD 000's	KD 000's
Balance at 1 January	**66,645**	62,092
Change in fair value during the year	**38,011**	9,486
Gain realised during the year	**(17,864)**	(7,697)
Share of changes in associates' fair value reserves (Note 10)	**51**	2,773
Balance at 31 December	**86,843**	66,654

Unrealised gains on revaluation of available for sale investments recognised directly in fair value reserve include KD 1,206 thousand (31 December 2006: KD 497 thousand) relating to unquoted equity investments resulting from the use of acceptable valuation techniques.

16 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates. Management of the bank is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion within equity attributable to the equity holders of the bank.

17 SHARE CAPITAL

Following approval of the ordinary and extraordinary general assembly meeting of the equityholders of the bank held on 19 February 2007, the authorised share capital of the bank was increased from KD 122,525 thousand to KD 171,535 thousand by way of issuance of 15% bonus shares amounting to KD 18,379 thousand and by issuance of 306,312 thousand rights shares with a nominal value of 100 fils per share amounting to KD 30,631 thousand plus premium of 900 fils per share amounting to KD 275,681 thousand. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2007, comprises 1,715,350 thousand shares (31 December 2006:1,225,250 thousand shares) of 100 fils each.

18 PROPOSED CASH DIVIDEND, ISSUE OF BONUS SHARES AND DIRECTORS' FEES

The board of directors of the bank have proposed a cash dividend of 65% for the year ended 31 December 2007 (2006: 57%) and issuance of bonus shares of 20% (2006: 15%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equity holders of the bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 200 thousand (2006: KD 150 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equity holders of the bank.

19 RESERVES

In the ordinary and extraordinary general assembly meeting of the equity holders of the bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers to statutory reserve in excess of 10%. The extraordinary general assembly of the bank held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the profit for the year attributable to the equity holders of the bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the bank. As a result, an amount of KD 28,474 thousand equivalent to approximately 10% (2006: KD 16,729 thousand equivalent to approximately 10%), of the profit for the year (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support tax, Zakat and Directors' fees) has been transferred to statutory reserve.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and usable at the discretion of the ordinary general assembly in ways that may be deemed beneficial to the bank. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

35% (2006: 34%) of the profit for the year attributable to the equity holders of the bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labour Support tax) has been transferred to voluntary reserve.

The share premium account is not available for distribution.

20 CONSOLIDATED SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %*		*Principal activities*	*Financial statements reporting date*
		2007	2006		
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2007
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate investment and trading	31 October 2007
Kuwait Finance House B.S.C.	Bahrain	97	100	Islamic banking services	30 November 2007
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2007
KFH Private Equity Ltd.	Cayman	100	100	Islamic investment	30 September 2007
Kuwait Turkish Evkaf Finance House	Turkey	62	62	Islamic banking services	30 September 2007
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2007
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	52	52	Aircraft leasing and financing services	30 September 2007
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	51	Real estate, investment, trading and real estate management	31 October 2007

21 CONTINGENCIES AND COMMITMENTS

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

	2007 KD 000's	2006 KD 000's
Acceptances and letters of credit	**402,701**	147,975
Guarantees	**634,609**	414,056
	1,037,310	562,031
Capital commitments	**1,261,559**	667,406

22 RELATED PARTY TRANSACTIONS

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

	Major shareholders KD 000's	Associates KD 000's	Board Members and Executive Officers KD 000's	Other related parties KD 000's	*Total 2007 KD 000's*	Total 2006 KD 000's
Related parties						
Receivables	-	51,869	472	17,441	**69,782**	33,479
Due to banks and financial institutions	-	-	-	3,994	**3,994**	9,939
Depositors accounts	7,970	9,984	3,502	7,110	**28,566**	94,041
Commitments and contingencies	337	2,008	-	-	**2,345**	19,168

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

	The number of Board Members or Executive Officers		The number of related parties			
	2007	2006	**2007**	2006	*2007 KD 000's*	2006 KD 000's
Board Members						
Finance facilities	**15**	10	**13**	9	**7,645**	6,946
Credit cards	**5**	6	**8**	7	**101**	79
Deposits	**27**	17	**76**	66	**7,341**	21,264
Collateral against financing facilities	**4**	11		-	**175**	202
Executive officers						
Finance facilities	**15**	23	**7**	12	**1,304**	1,612
Credit cards	**5**	5	**12**	10	**37**	50
Deposits	**20**	21	**103**	104	**2,534**	3,450
Collateral against finance facilities	**15**	16	**1**	1	**1,929**	2,195

Compensation of key management personnel is as follows:

	2007 KD 000's	2006 KD 000's
Short-term employee benefits	**4,457**	3,965
Termination benefits	**6,365**	4,403
Share options	**-**	1,013
	10,822	9,381

23 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

31 December 2007	*Treasury*	*Investment*	*Retail and corporate banking*	*Other*	*Total*
Assets	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Cash and balances with banks and financial institutions	553,565	-	-	-	553,565
Short-term international murabaha	1,051,922	15,369	-	-	1,067,291
Receivables	813,329	74,109	3,017,469	83,224	3,988,131
Trading properties	-	126,413	-	-	126,413
Leased assets	-	108,239	822,418	-	930,657
Available for sale investments	-	896,098	-	-	896,098
Investment in associates	-	341,279	-	-	341,279
Investment properties	-	247,300	-	-	247,300
Other assets	15,423	146,217	42,524	35,530	239,694
Property and equipment	609	36,515	102,086	268,278	407,488
	2,434,848	1,991,539	3,984,497	387,032	8,797,916
Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity					
Due to banks and financial institutions	1,186,391	-	-	-	1,186,391
Depositors' accounts	-	-	5,361,155	-	5,361,155
Other liabilities	4,239	60,740	190,001	125,873	380,853
Deferred revenue	-	-	374,608	-	374,608
Fair value reserve	-	86,843	-	-	86,843
Foreign exchange translation reserve	-	1,972	-	-	1,972
Total equity	-	-	-	1,406,094	1,406,094
	1,190,630	149,555	5,925,764	1,531,967	8,797,916
Income	87,430	193,663	523,018	27,037	831,148
Profit before distribution to depositors	60,737	134,539	363,342	18,783	577,401

23 SEGMENTAL ANALYSIS (continued)

31 December 2006 Assets	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other KD 000's	Total KD 000's
Cash and balances with banks and financial institutions	231,996	-	-	-	231,996
Short-term international murabaha	1,025,224	25,375	-	-	1,050,599
Receivables	599,626	19,150	2,087,277	72,113	2,778,166
Trading properties	-	90,463	-	-	90,463
Leased assets	-	102,156	545,783	-	647,939
Available for sale investments	-	583,351	-	-	583,351
Investment in associates	-	210,538	-	-	210,538
Investment properties	-	191,407	-	-	191,407
Other assets	15,082	73,399	34,482	5,364	128,327
Property and equipment	1,014	34,897	97,969	267,125	401,005
	1,872,942	1,330,736	2,765,511	344,602	6,313,791
Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity					
Due to banks and financial institutions	1,080,004	-	-	-	1,080,004
Depositors' accounts	-	-	3,729,930	-	3,729,930
Other liabilities	1,436	9,786	152,013	126,090	289,325
Deferred revenue	-	-	299,263	-	299,263
Fair value reserve	-	66,654	-	-	66,654
Foreign exchange translation reserve	-	8,683	-	-	8,683
Total equity	-	-	-	839,932	839,932
	1,081,440	85,123	4,181,206	966,022	6,313,791
Income	33,019	156,071	371,531	18,366	578,987
Profit before distribution to depositors	21,379	101,052	240,557	11,892	374,880

Secondary segment information

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

	Assets		Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity		Contingencies and commitments under letters of credit and guarantees	
	2007 KD 000's	2006 KD 000's	2007 KD 000's	2006 KD 000's	2007 KD 000's	2006 KD 000's
Geographical areas:						
The Middle East	6,860,816	4,860,983	7,519,834	5,486,966	283,721	233,917
North America	116,464	80,927	114,153	122,701	3,248	2,661
Western Europe	264,683	346,192	117,309	37,311	16,239	14,797
Other	1,555,953	1,025,689	1,046,620	666,813	734,102	310,656
	8,797,916	6,313,791	8,797,916	6,313,791	1,037,310	562,031

	Local		International		Total	
	2007 *KD 000's*	2006 KD 000's	*2007* *KD 000's*	2006 KD 000's	*2007* *KD 000's*	2006 KD 000's
Income	553,822	366,950	277,326	212,037	831,148	578,987
Profit before distribution to depositors	427,872	248,104	149,529	126,776	577,401	374,880

24 CONCENTRATION OF ASSETS AND LIABILITIES

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

(a) The distribution of assets by industry sector was as follows:

	2007 KD 000's	2006 KD 000's
Trading and manufacturing	**2,837,886**	1,987,213
Banks and financial institutions	**2,463,631**	1,864,658
Construction and real estate	**1,989,295**	1,686,443
Other	**1,507,104**	775,477
	8,797,916	6,313,791

See Note 23 for distribution of assets by geographical areas.

(a) The distribution of liabilities was as follows:

	Banking KD 000's	*Non-banking KD 000's*	*Total 2007 KD 000's*	Banking KD 000's	Non-banking KD 000's	Total 2006 KD 000's
Geographic region						
The Middle East	**5,502,977**	**272,422**	**5,775,399**	4,081,655	264,572	4,346,227
North America	**7,978**	**48,205**	**56,183**	70	108,229	108,299
Western Europe	**4,350**	**73,438**	**77,788**	20,271	1,777	22,048
Other	**986,760**	**32,269**	**1,019,029**	609,972	12,713	622,685
	6,502,065	**426,334**	**6,928,399**	4,711,968	387,291	5,099,259

	2007 KD 000's	2006 KD 000's
Industry sector		
Trading and manufacturing	**816,167**	725,857
Banks and financial institutions	**3,333,307**	1,804,020
Construction and real estate	**261,090**	94,184
Other	**2,517,835**	2,475,198
	6,928,399	5,099,259

25 FOREIGN CURRENCY EXPOSURE

The group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2007 KD 000's Equivalent Long (short)	2006 KD 000's Equivalent Long (short)
U.S. Dollars	**103,231**	(92,593)
Sterling Pounds	**26,800**	26,167
Euros	**(2,046)**	19,464
Gulf Cooperation Council currencies	**25,758**	20,792
Others	**55,802**	24,857

26 RISK MANAGEMENT

Risk management is an integral part of the group's decision-making process. It is managed through a risk management committee, comprising members of senior management drawn from all key areas of the group, who guide and assist with overall management of the Group's risks. Each individual within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to liquidity risk, credit risk, concentration risk, profit return risk, equity price risk and currency risk.

The group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the board of directors.

a) Risk management structure

Board of directors
The board of directors of the bank is responsible for the overall risk management approach and for approving risk strategies and principles.

The board of directors of the bank receives a comprehensive risk report once a quarter which is designated to provide all the necessary information to assess and conclude on the risks of the group.

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

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

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

b) Risk management and reporting systems

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

Monitoring and controlling risks are managed through limits set by the board of directors. These limits reflect the business strategy and market environment of the group as well as the level of risk that the bank's board of directors is willing to accept.

Risk mitigation
As part of its overall risk management, the bank uses proper instruments to manage exposures resulting from changes in yields, foreign currencies, equity risks and credit risks. The bank actively uses collateral to reduce its credit risks.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

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

In addition, each of the banking subsidiaries of the bank, has similar risk management structures, policies and procedures as noted for the bank above which are overseen by the bank's board of directors.

27 Credit Risk

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

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

Credit-related commitments risks
The group makes available to its customers guarantees which may require that the group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the group to similar risks to finance facilities and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross maximum exposure 2007 KD 000's*	Gross maximum exposure 2006 KD 000's
Cash and balances with groups and financial institutions (excluding cash on hand)	6	**514,935**	186,095
Short-term international murabaha		**1,067,291**	1,050,599
Receivables	7	**3,988,131**	2,778,166
Leased assets	8	**930,657**	647,939
Available for sale investments	9	**261,632**	151,006
Other assets		**215,451**	118,629
Total		**6,978,097**	4,932,434
Contingent liabilities		**1,037,310**	562,031
Commitments		**1,261,559**	667,406
Total		**2,298,869**	1,229,437
Total credit risk exposure		**9,276,966**	6,161,871

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

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by client by geographical region and by industry sector. The maximum credit exposure to a customer as of 31 December 2007 was KD 109,149 thousands (2006: KD 63,706 thousands) before taking account of collateral or other credit enhancements and KD 109,149 thousands (2006: KD 63,706 thousands) net of such protection.

The group's on-balance sheet financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	Banking KD 000's	*Non-banking KD 000's*	*Total 2007 KD 000's*	Banking KD 000's	Non-banking KD 000's	Total 2006 KD 000's
The Middle East	**5,048,154**	**232,175**	**5,280,329**	3,700,238	78,945	3,779,183
North America	**82,672**	**55,631**	**138,303**	54,253	48	54,301
Western Europe	**158,006**	**8,274**	**166,280**	249,644	21,638	271,282
Other	**1,378,118**	**15,067**	**1,393,185**	816,498	11,170	827,668
	6,666,950	**311,147**	**6,978,097**	4,820,633	111,801	4,932,434

27 Credit Risk (continued)

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

	Banking KD 000's	*Non-banking KD 000's*	*Total 2007 KD 000's*	Banking KD 000's	Non-banking KD 000's	Total 2006 KD 000's
Trading and manufacturing	**2,775,185**	**-**	**2,775,185**	1,959,968	413	1,960,381
Banks and financial institutions	**1,428,144**	**183,787**	**1,611,931**	1,158,205	99,215	1,257,420
Construction and real estate	**1,400,590**	**56,606**	**1,457,196**	1,215,772	45,008	1,260,780
Other	**1,063,031**	**70,754**	**1,133,785**	411,972	41,881	453,853
	6,666,950	**311,147**	**6,978,097**	4,745,917	186,517	4,932,434

Credit quality per class of financial assets
The table below shows the credit quality by class of asset for balance sheet lines:

	Neither past due nor impaired			
	High grade 2007 KD 000's	*Standard grade 2007 KD 000's*	*Past due or impaired 2007 KD 000's*	*Total 2007 KD 000's*
Receivables:				
International murabahas	**807,739**	**-**	**-**	**807,739**
Local murabahas	**2,126,008**	**565,140**	**144,146**	**2,835,294**
Istisna'a and other receivables	**206,764**	**98,651**	**39,683**	**345,098**
	3,140,511	**663,791**	**183,829**	**3,988,131**
Leased assets	**562,976**	**330,094**	**37,587**	**930,657**
Available for sale investments - sukook	**261,632**	**-**	**-**	**261,632**
	3,965,119	**993,885**	**221,416**	**5,180,420**

	Neither past due nor impaired			
	High grade 2006 KD 000's	Standard grade 2006 KD 000's	Past due or impaired 2006 KD 000's	Total 2006 KD 000's
Receivables:				
International murabahas	630,334	-	-	630,334
Local murabahas	1,380,263	417,721	111,196	1,909,180
Istisna'a and other receivables	146,100	85,158	7,394	238,652
	2,156,697	502,879	118,590	2,778,166
Leased assets	394,674	205,496	47,769	647,939
Available for sale investments - sukook	151,006	-	-	151,006
	2,702,377	708,375	166,359	3,577,111

An analysis of past due finance facilities, by age, is provided below. The majority of the past due finance facilities are not considered to be impaired.

27 Credit Risk (continued)

Aging analysis of past due but not impaired finance facilities by class of financial assets

	Less than 30 days 2007 KD 000's	31 to 60 days 2007 KD 000's	61 to 90 days 2007 KD 000's	*Total 2007 KD 000's*
Local murabahas	98,403	26,227	8,160	**132,790**
Istisna'a and other receivables	27,034	2,074	1,139	**30,247**
Leased assets	12,943	9,331	10,797	**33,071**
	138,380	37,632	20,096	**196,108**

	Less than 30 days 2006 KD 000's	31 to 60 days 2006 KD 000's	61 to 90 days 2006 KD 000's	Total 2006 KD 000's
Local murabahas	59,742	16,284	7,677	83,703
Istisna'a and other receivables	146	78	-	224
Leased assets	17,400	43	14,750	32,193
	77,288	16,405	22,427	116,120

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines established by the bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, quoted shares, cash and bank guarantees. The group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The fair value of collateral that the group holds relating to finance facilities individually determined to be impaired at 31 December 2007 amounts to KD 45,484 thousand (2006: KD 56,832 thousand). The collateral consists of cash, securities, letters of guarantee and real estate assets.

The fair value of collateral that the group holds relating to finance facilities past due but not impaired as at 31 December 2007 was KD 244,818 thousand (2006: KD 155,582 thousand).

28 LIQUIDITY RISK

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

The bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The bank also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash and short term murabaha. The ratio during the year was as follows:

	2007 %	2006 %
31 December	**26**	33
Average during the period	**33**	27
Highest	**42**	33
Lowest	**26**	21

The table below summarises 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 balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangement with the exception of available for sale investments and investment properties which are based on planned exit dates.

28 LIQUIDITY RISK (continued)

The maturity profile of assets and liabilities at 31 December 2007 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	*Total KD 000's*
Assets					
Cash and balances with banks and financial institutions	553,565	-	-	-	**553,565**
Short-term international murabaha	1,067,291	-	-	-	**1,067,291**
Receivables	754,409	732,873	751,792	1,749,057	**3,988,131**
Trading properties	-	126,413	-	-	**126,413**
Leased assets	278,404	160,212	134,923	357,118	**930,657**
Available for sale investments	-	-	-	896,098	**896,098**
Investment in associates	-	-	-	341,279	**341,279**
Investment properties	-	-	-	247,300	**247,300**
Other assets	32,070	144,519	-	63,105	**239,694**
Property and equipment	-	-	-	407,488	**407,488**
	2,685,739	**1,164,017**	**886,715**	**4,061,445**	**8,797,916**
Liabilities					
Due to banks and financial institutions	514,494	49,807	165,646	456,444	**1,186,391**
Depositors' accounts	3,063,709	117,052	5,576	2,174,818	**5,361,155**
Other liabilities	64,712	117,426	54,984	143,731	**380,853**
	3,642,915	**284,285**	**226,206**	**2,774,993**	**6,928,399**

The maturity profile of assets and liabilities at 31 December 2006 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	231,996	-	-	-	231,996
Short-term international murabaha	1,050,599	-	-	-	1,050,599
Receivables	522,359	347,080	503,789	1,404,938	2,778,166
Trading properties	-	90,463	-	-	90,463
Leased assets	181,423	136,067	213,820	116,629	647,939
Available for sale investments	-	-	-	583,351	583,351
Investment in associates	-	-	-	210,538	210,538
Investment properties	-	-	-	191,407	191,407
Other assets	72,354	3,396	-	52,577	128,327
Property and equipment	-	-	-	401,005	401,005
	2,058,731	577,006	717,609	2,960,445	6,313,791
Liabilities					
Due to banks and financial institutions	705,644	-	-	374,360	1,080,004
Depositors' accounts	2,301,688	49,693	32,404	1,346,145	3,729,930
Other liabilities	46,016	79,685	56,735	106,889	289,325
	3,053,348	129,378	89,139	1,827,394	5,099,259

10% of the group's liabilities are expected to become due in less than one year at 31 December 2007 (31 December 2006: 12%).

28 LIQUIDITY RISK (continued)

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

	On demand KD 000's	Less than 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
2007						
Contingent liabilities	591,446	25,170	137,560	259,436	23,698	1,037,310
Commitments	151,073	12,425	23,177	420,022	654,862	1,261,559
Total	742,519	37,595	160,737	679,458	678,560	2,298,869
2006						
Contingent liabilities	378,420	10,843	48,957	101,853	21,958	562,031
Commitments	83,559	9,326	13,589	302,396	258,536	667,406
Total	461,979	20,169	62,546	404,249	280,494	1,229,437

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

29 MARKET Risk

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

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

The group is not exposed to any risk in terms of the repricing of its liabilities since the group does not provide contractual rates of return to its depositors in accordance with Islamic Shareea'a.

Non-trading market risk

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

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

Currency risk is managed on the basis of limits determined by the bank's board of directors and a continuous assessment of the group open positions, and current and expected exchange rate movements. The group, where necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency.

The tables below indicate the currencies to which the bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of available for sale investments).

Currency	*Change in currency rate in % 2007*	*Effect on profit 2007 KD 000's*	*Effect on fair value reserve 2007 KD 000's*	Change in currency rate in % 2006	Effect on profit 2006 KD 000's	Effect on fair value reserve 2006 KD 000's
USD	*-2%*	*2,065*	*1,942*	-0.98%	907	-492
GBP	*+2%*	*536*	*59*	12.7%	3,323	321

The comparative change in currency is based on the actual change in the value of the currencies in that year.

29 MARKET Risk (continued)

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

The effect on fair value reserve (as a result of a change in the fair value of available for sale investments at 31 December 2006) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	*Change in equity price 2007 %*	*Effect on fair value reserve 2007 KD 000's*	Change in equity price 2006 %	Effect on fair value reserve 2006 KD 000's
KSE	**-10**	**(16,727)**	-12	(11,506)
Other GCC indices	**+12**	**905**	+1	48
Unquoted	**+2**	**146**	+2	220

The comparative change in price of equity indices is based on the actual change in the equity price indices in that year.

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The bank has a set of policies and procedures, which is approved by its board of directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the bank. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall bank wide risk management.

The operational risk function of the bank is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in banks.

30 CAPITAL MANAGEMENT

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

The group manages its capital structure and makes adjustments to 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 review 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.

Capital adequacy

	Actual 2007 KD 000's	Actual 2006 KD 000's
Tier 1 capital	**1,294,594**	754,165
Tier 2 capital	**25,245**	21,677
Total capital	**1,319,839**	775,842
Risk weighted assets	**5,674,430**	4,110,003
Total capital ratio	**23%**	19%
Minimum total capital ratio (required by the CBK)	**12%**	12%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, foreign currency translation and minority interests less dividends and treasury shares. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Kuwait. The other component of regulatory capital is Tier 2 capital, which includes fair value reserve and foreign currency translation reserve.

31 MANAGEMENT OF PURCHASED DEBTS

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

32 FINANCIAL INSTRUMENTS

In the ordinary course of business, the group uses primary financial instruments such as cash and balances with or due to banks and other financial institutions, investments, receivables and payables. The group does not make use of derivative financial instruments. Information about fair values of financial assets and liabilities are disclosed in the respective notes to the consolidated financial statements.

33 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the group at 31 December 2007 amounted to KD 486,825 thousand (2006: KD 467,356 thousand).

Fees and commission income include fees of KD 3,398 thousand (2006: KD 2,852 thousand) arising from trust and fiduciary activities.

34 ADJUSTMENT TO MURABAHA, WAKALA, ISTISNA'A AND LEASING INCOME

Murabaha, wakala, istisna'a and leasing income has been reduced by KD 556 thousand in the last quarter of the year. The charge represents an adjustment arising from revised estimates of future cash flows from a portfolio of performing finance facilities that have had their terms modified during the year.