Kuwait Finance House K.S.C. and Subsidiaries

30th Annual Report 2008

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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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Financial Highlights

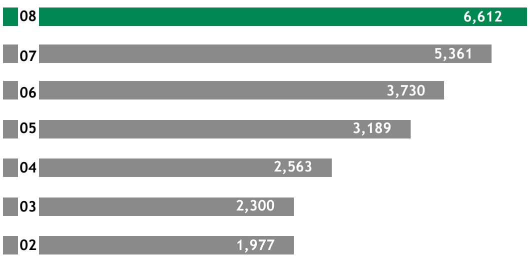
Kuwait Finance House

With its strong Islamic values, Kuwait Finance House 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.

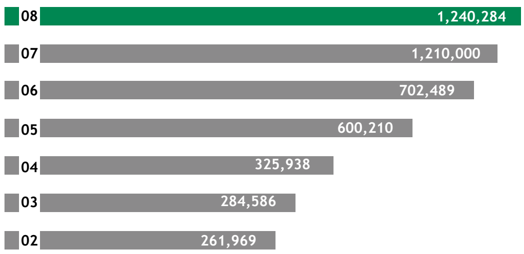
In accordance with the Islamic principles, Kuwait Finance House ensures that while working with the public professionally, the company guarantees an honorable relationship with its client base and the Islamic community as a whole.

The values are continually reinforced and adhered to in all aspects of the corporate operations. Its integrity and sincerity has maintained a 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.

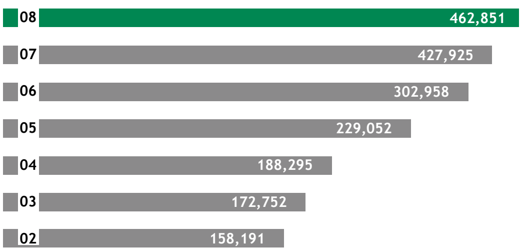
Depositors' Account Growth
(in millions of Kuwaiti Dinars)
+23%



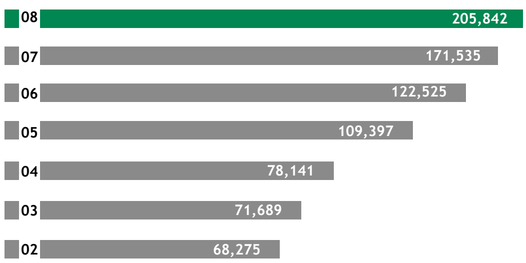
Shareholders' Funds Growth
(in thousands of Kuwaiti Dinars)
+2.5%



Reserves Growth
(in thousands of Kuwaiti Dinars)
+8%



Capital Growth
(in thousands of Kuwaiti Dinars)
+20%



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-Subeih

Report of Al-Fatwa and Shari'ah Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2008, 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

Chief Executive Officer
Mohammad Sulaiman Al-Omar

Assistant General Manager
Emad A. Al-Thaqeb

Assistant General Manager
Mohammad Naser Al-Fouzan

Assistant General Manager
Ahmad Mohammad Al-Khalid

Assistant General Manager
Abdul Aziz Al-Jaber

Assistant General Manager
Dr. Waleed Essa Al Hasawi

Acting Assistant General Manager
Abdulnaser Abdulmuhsen Al-Subeih

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 great pleasure to welcome you at the 30th General Assembly Meeting, and present to you the Kuwait Finance House (KFH) Annual Report for the year ending 31 December 2008 including the Fatwa & Shari'ah Supervisory Board (FSSB) Report, the key annual achievements, the local, regional, and global developments, the Consolidated Financial Statements of KFH and its subsidiaries, as well as the Auditors' Report.

During 2008, KFH maintained its outstanding performance to position itself as an acknowledged leader in Islamic Banking and achieve its set goals and objectives. KFH managed, thanks to Allah, to weather the consequences of the global financial turmoil during the 3rd Quarter 2008 backed by the diversified sources of income and operating activities, proper risk allocation, and the extensive care of clients and their needs. In addition, the positive results of expanding KFH Group in the Middle East have become evident during the year.

Taking confident strides towards expanding regionally, KFH has obtained the license from the Saudi Capital Market Authority (CMA) to inaugurate the Saudi Kuwaiti Finance House; which is fully owned by KFH Group with a capital worth SR 500 Mn (Roughly KD 37 Mn). Work is underway to start operation in Saudi KFH during the 2nd Quarter 2009.

Almost all international markets, including the Kuwait Stock Exchange (KSE), have fallen prey to the adverse consequences of the global financial turmoil. The major effect on the Kuwaiti Economy included a sharp decline in the prices of crude oil in international markets. The low demand and price decrease of crude oil are expected to go worst driven by the aggravated financial crunch in the West and the indications for a wide scale recession marked by the lowered demand on consumer goods, the increased unemployment rate, and the decreased growth brought about by the decreased confidence by consumers creating negative impacts on supply and its inputs; especially power. The deflated consumption will, in turn, bring about recession and cause oil prices to decrease.

The recent global financial turmoil has stressed the necessity for reviewing several global financial and economic policies, which have been taken for granted for a long time and the strong financial position, effective instruments, and moral approach of KFH which operates its business in full compliance with the noble Islamic Shari'ah.

This, in fact, will create more challenges for KFH and its sincere manpower as they seek to penetrate into new global markets that best suit its mechanisms, capabilities, and approach guided by a prudent and forward looking vision for investment in such markets to achieve more growth and ensure the highest returns for shareholders and depositors, resulting from the upward operating activities which have been prospering for seven successive years.

KFH has been able to handle the financial crunch properly in a manner that ensures integrity of its investments and adequate liquidity for its activities. KFH, in addition, has played a major role in securing confidence in the economy by extending commercial facilities and financing to certain companies on sound credit fundamentals backed by its strong financial position and indicators.

New Services & Products

KFH has been able to secure the lion's share in the banking sector in Kuwait. Even though KFH is proven to solicit the largest clients' funds and deposits; reflecting the confidence of clients and the strong relationship between KFH and its clients, KFH has focused much attention on meeting the needs and requirements of clients of the different tiers of the Kuwaiti society; especially, youth. To cater for the needs of such a tier of society, KFH has established "Hesabi" Program, which is designed to provide services and products that correspond to the modern lifestyle of youth and university students. Meanwhile, many offers have been presented by KFH to encourage youth and students to benefit from KFH banking and commercial services. In addition, "Al-Bara'em Account" has been developed into "Baitii Account for Children" providing valuable offers to ensure satisfaction of the future clients.

Out of its firm belief that caring for its clients requires a deep knowledge and clear vision on the needs and expectations of clients, KFH has offered its new monthly product "Al-Kawthar Deposit", which serves as a multifaceted saving vessel with different durations and multiple sources of returns to be added to KFH's bouquet of saving and investment services that provides annual and quarterly returns. Al-Kawthar Deposit will secure regular monthly cash returns to clients to meet their different demands.

As a new initiative of its kind in Kuwait, KFH has introduced the KFH Voice Service (Sawtak) to enable clients to transact their KFH services using the voice commands rather than using the telephone keypad.

Continuous Development of the Communication Channels

Driven by our strategy to use all the different channels for communication with clients, KFH has offered a wide variety of communication channels aiming at presenting the banking services 24/7 and innovating new direct and remote communication channels using manpower, electronic systems including Internet, mobile network, and Allo Baitak (Tele-Banking) while focusing attention on the direct contact with clients through KFH branches.

During 2008, the number of KFH branches has been increased to 46 in line with an ambitious plan to renovate branches and implant a new impression of authenticity and modernization in the minds of clients. Riqa, Ardiya, Shaab, Khaldiya, Bayan, Yarmouk, and Subhan branches have been renovated and inaugurated; four branches have been renovated, and three branches have been rebuilt given that the re-modeling of branches allows for the optimum use of space and help to present services amidst an environment of convenience, quality, swiftness, and efficiency.

To cater for the services needed by corporate entities and cooperative societies, new services centers in Khaitan, Fahaheel, Jahra, and Shuwaikh have been established to care for the services of this segment of clients.

In addition, KFH branches have been equipped with state-of-the-art digital displays to show all innovative services and products and increase clients' awareness of the major accomplishments and achievements on the local, regional, and international levels.

As KFH is keen to present remote instant services to cater to the needs of its valued clients 24/7, Allo Baitak has become a key banking call center in the region and has been therefore given the Late Emir "Jaber Quality" Award; a formal award that is given to distinguished local institutions, in recognition for its significant role in caring for clients and establishing effective communication channels with them.

Moreover, we have increased the number and created innovative designs for the ATM machines, which are used by clients around the clock. While KFH is very interested in developing its services through the cellular phone, KFH has presented its brand new SMS Baitak Service so that subscribers to this service will be kept advised of detailed, up-to-date account transactions.

In line with KFH's efforts to widening the plastic cardholder base, a noticeable increase in the number of cardholders has been reported during 2008; especially after offering the Chip Card to clients. It should be noted that credit cardholders are given additional privileges; such as special discounts and exclusive offers upon shopping at key stores and shops in Kuwait.

Global Recognition Awards

KFH has won the largest number of global recognition awards at the regional level, as KFH has been unanimously selected for "The Best Transaction in 2007" by Global Finance Magazine for Dhul Majaz Portfolio; being the first Islamic Portfolio that trades in Al-Salam in the commodities market. In addition, KFH Group has been given 6 awards for its products and services by Islamic Finance News; a Malaysian Magazine. Three awards for KFH; The Best Islamic Bank, The Best Innovative Islamic Bank, and The Best Islamic Bank in Kuwait, and three awards for KFH Malaysia; The Best Deal of the Year Award, The Best Financial Trading Deal Award, and The Best Musharakah Transaction Award.

Quality-Driven Growth

Enhancing the level of services is the cornerstone in our focused attention to clients, since we are dedicated to spreading the culture of quality and to increasing awareness of the international quality standards among staff members through applying the recent performance measurement and appraisal techniques and client satisfaction measurement standards.

Local Market

The local market comes as a top priority in KFH's strategy, given that its share in the local market is growing. To this effect, KFH has been developing its services in the local and real estate market and other services and products related to corporate finance.

KFH has taken the lead in consumer finance and achieved a remarkable growth, especially in the motor and construction material finance driven by the increasing

demand and dynamic activity in the construction sector KFH has sustained its support to the local market through financing concrete projects based on selling, buying & Ijarah; and through the support of a broad client and vendor's base which made of KFH the example and the reference to banks, companies and other countries who tend to enhance their Islamic financial products.

Real Estate Services

KFH has assumed a leading role in the real estate management and finance backed by a proficient team that is well versed in developing the real estate management locally, regionally and globally.

In this context, KFH has been given "The Best Financial Institution Offering Real Estate Services in the ME Region" and "The Best Financial Institution Offering Financial Services in Kuwait" by EuroMoney.

KFH has been developing real estate projects as high-end urban facilities, which are mainly concentrated in the investment properties, marketing complexes, and office buildings sectors. Acceptance of investment opportunities is based on the quality of properties and the rewarding returns. This year has witnessed the inauguration of KFH's new premises to be added to the main KFH building in line with its strategy to expand its business activities and clientele database. In addition, the design and development of a group of residential buildings have been completed in many areas in Kuwait.

In line with KFH's approach to increase the awareness of the real estate knowledge, a set of real estate reports on the development, trends, and rates of real estate properties in Kuwait have been issued til KFH Quarterly Real Estate Report has become a key reference to investors and decision takers, and KFH has been given the "The Best Bank in Presenting Data and Information in a Modern, Quick, Accurate, and Honest Manner" Award and "The Best Financial Institution offering the Real Estate Valuation Service in Kuwait" Award by EuroMoney. In this context, KFH has participated in many local and international real estate exhibitions, and supported the Kuwaiti Real Estate Union in the establishment of the First Conference named "Sound Economy in Sound Real Estate Property".

Direct Investment & International Investment Services

KFH is a leader in the direct investment and has wide scale investments and leading services. To maintain its leading role in the market under the ever-changing regional and international developments, KFH's activities have been restructured through expanding the direct investments at the local and regional levels, preparing proficient human cadres, and incorporating Liquidity Management House company with a capital worth KD 100 million to act as the investment arm of KFH in development and management of investment products in the GCC region and the promising regional markets, while focusing much attention on the regional and international Sukuk market which is believed to be a promising emerging market.

Maximizing Shareholding in KFH Group Subsidiary & Associate Companies

In line with the notable expansion of KFH and its subsidiary and associate companies, KFH has made a capital increase in KFH Bahrain, Sharjah Islamic Bank, KFH Turkey, KFH Malaysia, KFH Real Estate Investment Co, Developmental Projects Holding Company, A'ref Investment Group, and Al-Nakhil Real Estate Company, and increased its investments in the GCC region. It is the Year 2008 when KFH has gone regional when KFH has entered the Saudi and Qatari markets.

Asian Real Estate Fund

KFH Asian Real Estate Fund has been liquidated at the end of 2008 with an invested capital worth USD 100 million achieving net profits worth USD 16.5 million, and IRR not less than 15%. In addition, 9% cash dividends per annum have been distributed quarterly to investors throughout the 3-year fund term.

Investment in China

As a first investment initiative of its kind, KFH has, in partnership with Limited Nan Hai, a Chinese company, invested USD 277 million in the Peninsula Project within the KFH Asian Real Estate Fund 2 in Shekou Shenzhen, China. A 15% IRR and 9% quarterly cash dividends are expected.

Major Developments Realized by KFH Group:

KFH - Turkey

KFH Turkey has outperformed the top five Islamic banks operating in Turkey, ranked first amongst the Islamic banks in terms of the volume of deposits, and has been well positioned among the other major banks operating in Turkey. Taking fast strides to this effect, KFH Turkey has increased the number of its branches to reach 113 branches by the end of the year, and expanded its activities in the other economies that are closely connected with Turkey such as Bahrain and Germany.

KFH - Bahrain

KFH Bahrain has been achieving multiple accomplishments and presenting innovative services. In 2002, KFH Bahrain was incorporated as a KFH wholly-owned financial institution. Following its effective management and execution of Durrat Al-Bahrain, KFH Bahrain has launched Diyar Al-Mahrag Project; a major real estate development project, targeting all classes of the society especially the mid and limited income people in the Kingdom of Bahrain. Moreover, KFH Bahrain has announced the establishment of an investment bank in Jordan with a capital worth USD 50 million.

KFH - Malaysia

Since its incorporation three years ago, KFH Malaysia has been achieving multiple accomplishments and stories of success in Malaysia and the regional neighborhood. KFH Malaysia has invested in mega projects in the Malaysian market; such as Iskandar City Development Project,

The World is Your Home
175 Branches Worldwide

increased the number of its branches to five branches located in close vicinity to Kuala Lumpur and other vital locations, presented top-notch Islamic products and services that have positively increased KFH Malaysia's market share, addressed the growing demand on the Islamic financial services, and raised clients' confidence in such Islamic services.

Social Responsibility

We, at KFH, do realize that we form part of this society and shall therefore interact with its parties through assuming our social responsibility in coordination with the active government corporations interested in providing philanthropic assistance and social activities.

KFH has proceeded its effective participation in the active social activities carried out during the year, as it provided KD 2 million to Bait Al-Zakat (Kuwait Zakat House) for philanthropic activities, KD 800,000 for assisting poor families, KD 500,000 for the execution of charitable projects in the name of KFH in poor countries, KD 250,000 for the relief and disaster recovery activities outside the State of Kuwait, and KD 250,000 for assisting patients in buying the necessary medications as per the laws and regulations applicable in Bait Al- Zakat. KFH has also dedicated KD 50,000 for the Feeding of Fasting Muslims Project outside the State of Kuwait, entered into a cooperation agreement with the Ministry of Social Affairs and Labor for the establishment of an Entertainment Center for Ministry's Social Welfare Houses Guests at Al-Zoor with a total cost worth KD 1 million. The project includes a multi-use hall, entertainment hall, three furnished residential units of 420 square meters and a covered swimming pool. Capacity of the project is 50 guests who will have the chance to visit the Centre at anytime throughout the year.

Balance Sheet:

Total assets reached KD 10.544 billion at the end of the year with an increase of KD 1.746 billion as compared to 2007 or 20% compared to the previous year. As for liabilities, clients' accounts balances have reached KD 6.612 billion with an increase of KD 1.250 billion or 23% to the previous year. Shareholders' equity has reached KD 1.240 billion with an increase of KD 30 million equal to 2.5% compared to 2007.

Revenues:

Total realized revenues for this year has reached KD 885 million with an increase of KD 54 million equal to 6.5%. After deducting the different expenses and provisions, profits before allocations have been KD 379 million.

Shareholders' Profits:

Net profits for shareholders have been KD 157 million.

Profit Allocation:

Profits are allocated to investor depositors for the Financial Year ending 31 December 2008 as per the following table:

Type of Account	2008	2007
Continuous Investment Deposits	4.300%	8.632%
Sedra Deposits	3.344%	6.714%
Saving Investment Accounts	2.867%	5.755%

Economic Developments Review

First: The National Economy (Kuwait)

After six consecutive years of growth and prosperity, Kuwaiti economy continued its progress during 2008 despite the effects of the global financial turmoil that affected financial markets as of September 2008.

At the domestic level, regardless of the direct financial effects that brought about the losses incurred by individual investors and the investment portfolios due to decline in foreign and local stock exchanges, the most important effect of the global economy turmoil is the severe decline of crude oil prices in global markets. Since the local economy depends basically on the oil sector, it can not be said that Kuwait is away from the risks of the global financial turmoil, given that recession may be a key event in the coming period.

Backed by a team of specialists, the Kuwaiti government has exerted tangible efforts to take many actions that aim at maintaining the integrity of and regaining confidence in the financial sector.

Description	2004	2005	2006	2007	2008 (forecasted)	2009 (forecasted)
The Actual GDP (in KD)(1)	17.5	23.6	29.5	31.8	40.9	33.5
The Actual GDP (in $)(1)	58.22	80.02	101.01	109.04	148.73	126.55
The Actual Growth Rate (%)(2,4)	10.7	11.4	6.3	4.6	5.9	5.8
Per Capita Income (in $) (3)	18.443	24.731	30.455	32.075	42.706	35.472
Population(4)	3.16	3.24	3.32	3.40	3.48	3.57

Source: BMI estimates.f BMI forecasts. Sources: 1. Central Bank of Kuwait. 2. State Planning Organization; 3. BMI calculation; 4. IMF.

The effective financial policy and public expenditure are essential; particularly for the infrastructure projects needed in Kuwait in the light of the great reserves established during the past five years to support the local economy and maintain its growth. This will contribute in widening the scope of the private sector and diversifying both production structures and revenues to help Kuwaiti economy and the State's Budget avoid the effects the unstable oil revenues and other future fluctuations in the light of the global financial turmoil.

Best Islamic Bank
in the Middle East

EUROMONEY

Second: The GCC Economy

High growth rates exceeding 5% are reported at the GCC level, recording 6% during 2008. Expectedly, GCC economies will be affected greatly with the declined demand on oil driven by the global financial turmoil, as growth is expected to go down by 4% in 2009. A key factor that may affect the non-oil economic sectors in GCC is that growth rates of some economies are varying more quickly than other GCC economies. Most GCC countries have adopted many monetary and financial plans and policies to widen the scope of public expenditure in order to revive the local demand on the back of the financial surpluses realized over the past three years to survive the global financial turmoil and maximize growth rates.

The Key GCC Economy Indicators are identified in the table below.

	Growth Rate(%) (1)			Inflation Rate(%) (2)			Budget Surplus or Deficit / Gross Domestic Product		
	2008	2009	2013	2008	2009	2013	2008	2009	2013
Bahrain	6.3	6.0	6.0	3.8	2.9	2.8	11.6	-2.4	7.2
Kuwait	5.9	5.8	6.0	9.6	4.5	5.4	55.6	40.4	36.8
Oman	7.4	6.0	5.6	11.6	5.8	4.2	21.4	-2.4	3.8
Qatar	16.8	21.4	5.5	14.9	10.1	7.6	16.7	14.6	14.7
KSA	5.9	4.3	5.0	9.8	4.5	4.4	25.6	17.6	16.5
UAE	7.0	6.0	5.6	10.5	6.9	5.4	22.6	4.5	12.8

Year 2008 has witnessed the announcement of the Common Gulf Market, and resolution allowing GCC nationals to own real estates in Kuwait has been issued. However, more efforts should be exerted to encourage GCC nationals to own private enterprises in any GCC country, limit the customs and other non customs constraints in order to encourage trade among GCC countries, and establish a railway network connecting GCC countries to reinvigorate the economy in each GCC country.

Third: The Global Economy

A severe economic recession is highly expected as a result of the global financial turmoil aggravating the economic problems and affecting the commercial and financial stability at the international level. IMF has amended its forecasts several times since the start of the global financial turmoil.

Based on the above, global growth rate is expected to decline to 3.7%, the volume of trade exchange is expected to go down by 4.1%, growth in the developing and developed countries is expected to go up by 3.25%, and growth in the developed countries is expected to decline by - 0.2%.

In fact, prospects of the global growth have decreased on the back of the global financial turmoil, which kept the debt finance to a minimum and diminished producers and consumers' confidence. The present forecasts indicate that the gross global product will witness a decrease of -1.7% in 2009, with a decrease of about 1.75% of GDP compared to the previous forecasts of IMF. GDP of the advanced economies is expected to decline in 2009 to record the first decline of its kind following the World War II. On another front, growth of emerging economies is expected to slow down substantially although it is expected to reach 5.1% in 2009. In addition, global growth rate is expected to decrease from 5% in 2007 to 3.4% in 2008 and to more than 2% in 2009, while decline will be mainly reported in the developed economies.

The Chinese economy; the fourth biggest economy worldwide, is expected to remain vigorous despite the fact that its growth rate declined to 9.3% in 2008 and will decline to 7.3% in 2009. For India, the growth rate is expected to record 7.3% in 2008 and to decline to 5.1% in 2009.

The continuous decline in the global demand will lead to a decline in the prices of essential goods. Affected by the global economic recession, oil prices have witnessed a decrease of more than 50% compared to recent hike in prices, recording unprecedented levels starting as early as 2007.

Extensive measures are being laid down at the global level to mitigate the financial crunch, though the fruitful results of such measures will not be reaped soon. Such current initiatives include the Troubled Assets Purchase Program TARP, use of public funds in the recapitalization of banks, offering comprehensive collaterals, and the well established procedures designed by the key central banks to cut the interest rates on monetary policy instruments.

Some countries have taken bold steps to weather the current crisis and boost up the financial sector by executing immense government initiatives and opening new employment opportunities, aiming to reduce the sharp surge in unemployment rate caused by the global financial crunch.

In conclusion, we wholeheartedly thank Allah for his countless blessings, and call upon Allah to help us achieve KFH goals and objectives in a way that ensures what is good for our beloved homeland and our valuable clients, driven by the wise leadership of H.H Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah. 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.

Bader Abdul Muhsen Al-Mukhaizeem

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 2008, the related consolidated income statement, changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Bank's Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted 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 2008, and 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 2008 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 organization of banking business, and its related regulations during the year ended 31 December 2008.

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.

20 January 2009
Kuwait

CONSOLIDATED INCOME STATEMENT At 31 December 2008

	Note	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
INCOME					
Financing income	34	561,271	466,893	2,034,696	1,692,561
Investment income	3	209,897	266,397	760,910	965,731
Fee and commission income		70,140	56,125	254,269	203,462
Net gain from dealing in foreign currencies		13,547	14,696	49,110	53,275
Other income		29,998	27,037	108,748	98,013
		884,853	831,148	3,207,733	3,013,042
EXPENSES					
Staff costs		96,254	73,783	348,936	267,475
General and administrative expenses		70,873	48,134	256,926	174,493
Murabaha and ijara costs		81,194	65,712	294,341	238,216
Depreciation		28,547	27,939	103,487	101,283
Impairment	4	210,940	38,179	764,691	138,405
		487,808	253,747	1,768,381	919,872
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		397,045	577,401	1,439,352	2,093,170
Distribution to depositors	14	216,800	242,528	785,934	879,202
PROFIT AFTER DISTRIBUTION		180,245	334,873	653,418	1,213,968
Contribution to Kuwait Foundation for the Advancement of Sciences		1,626	2,847	5,895	10,321
National Labor Support tax		2,573	6,257	9,328	22,683
Zakat (based on Zakat Law No. 46/2006)		1,234	174	4,473	631
Directors' fees	18	160	200	580	725
PROFIT FOR THE YEAR		174,652	325,395	633,142	1,179,608
ATTRIBUTABLE TO:					
Equity holders of the bank		156,960	275,266	569,005	997,883
Minority interest		17,692	50,129	64,137	181,725
		174,652	325,395	633,142	1,179,608
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	5	76 fils	138 fils	28 Cents	50 Cents

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

CONSOLIDATED BALANCE SHEET At 31 December 2008

	Note	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
ASSETS					
Cash and balances with banks and financial institutions	6	368,062	553,565	1,334,283	2,006,761
Short-term international Murabaha		1,312,153	1,067,291	4,756,763	3,869,099
Receivables	7	4,779,788	3,988,131	17,327,490	14,457,607
Trading properties		57,590	126,413	208,773	458,267
Leased assets	8	1,181,825	930,657	4,284,303	3,373,779
Investments	9	1,038,602	896,098	3,765,097	3,248,497
Investments in associates	10	449,496	341,279	1,629,494	1,237,191
Investment properties	11	279,574	247,300	1,013,500	896,502
Other assets		485,713	239,694	1,760,787	868,929
Property and equipment	12	591,339	407,488	2,143,698	1,477,209
TOTAL ASSETS		10,544,142	8,797,916	38,224,188	31,893,841
LIABILITIES, DEFERRED REVENUE,FAIRVALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY					
LIABILITIES					
Due to banks and financial institutions	13	1,595,452	1,186,391	5,783,767	4,300,856
Depositors' accounts	14	6,611,556	5,361,155	23,967,939	19,435,037
Other liabilities		394,033	380,853	1,428,433	1,380,652
TOTAL LIABILITIES		8,601,041	6,928,399	31,180,139	25,116,545
DEFERRED REVENUE		344,426	374,608	1,248,599	1,358,013
FAIR VALUE RESERVE	15	11,394	86,843	41,305	314,820
FOREIGN EXCHANGE TRANSLATION RESERVE	16	(7,548)	1,972	(27,363)	7,149
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
Share capital	17	205,842	171,535	746,210	621,842
Share premium		464,766	464,735	1,684,850	1,684,738
Proposed issue of bonus shares	18	24,701	34,307	89,545	124,368
Reserves	19	462,851	427,925	1,677,908	1,551,296
		1,158,160	1,098,502	4,198,513	3,982,244
Proposed cash dividend	18	82,124	111,498	297,713	404,198
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		1,240,284	1,210,000	4,496,226	4,386,442
Minority interest		354,545	196,094	1,285,282	710,872
TOTAL EQUITY		1,594,829	1,406,094	5,781,508	5,097,314
TOTAL LIABILITIES, DEFERRED REVENUE,FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		10,544,142	8,797,916	38,224,188	31,893,841

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

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2008

	Attributable to equity holders of the bank												Minority interest KD 000's	Total equity KD 000's
				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 share KD 000's	Profit for the year KD 000's	Sub total KD 000's	Sub total KD 000's	Proposed cash dividend KD 000's	Sub total KD 000's		
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 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
Issue of bonus shares	34,307	-	(34,307)	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	31	-	-	-	-	-	-	-	31	-	31	-	31
Zakat (Note 2)	-	-	-	-	(7,558)	-	-	-	(7,558)	(7,558)	-	(7,558)	-	(7,558)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	(111,498)	(111,498)	-	(111,498)
Profit for the year	-	-	-	-	-	-	-	156,960	156,960	156,960	-	156,960	17,692	174,652
Distribution of profit:														
Proposed issue of bonus shares	-	-	24,701	-	-	-	-	(24,701)	(24,701)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	(82,124)	(82,124)	(82,124)	82,124	-	-	-
Transfer to statutory reserve	-	-	-	16,255	-	-	-	(16,255)	-	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	33,880	-	-	(33,880)	-	-	-	-	-	-
Net movement in treasury shares	-	-	-	-	-	-	(7,651)	-	(7,651)	(7,651)	-	(7,651)	-	(7,651)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	140,759	140,759
At 31 December 2008	**205,842**	**464,766**	**24,701**	**230,844**	**234,415**	**4,237**	**(6,645)**	**-**	**462,851**	**1,158,160**	**82,124**	**1,240,284**	**354,545**	**1,594,829**

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

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2008

	Note	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
OPERATING ACTIVITIES					
Profit for the year		174,652	325,395	633,142	1,179,608
Adjustment for:					
Depreciation		28,547	27,939	103,487	101,283
Impairment		210,940	38,179	764,691	138,405
Dividend income		(19,910)	(24,326)	(72,177)	(88,186)
Gain on part sale of associates and subsidiaries		(16,466)	(76,973)	(59,692)	(279,039)
Gain on sale of available for sale investments		(72,284)	(59,395)	(262,041)	(215,316)
Share of results of associates		(42,991)	(45,422)	(155,849)	(164,662)
Other investment income		(2,217)	(1,040)	(8,037)	(3,770)
		260,271	184,357	943,524	668,323
Changes in operating assets and liabilities (Increase) decrease in operating assets:					
Exchange of deposits		(6,633)	(6,224)	(24,046)	(22,563)
Receivables		(483,769)	(1,593,999)	(1,753,739)	(5,778,499)
Trading properties		68,823	(35,950)	249,494	(130,324)
Leased assets		(260,055)	(288,420)	(942,741)	(1,045,568)
Other assets		(246,348)	(116,626)	(893,051)	(422,788)
Increase (decrease) in operating liabilities:					
Due to banks and financial institutions		409,062	106,386	1,482,915	385,666
Depositors' accounts		1,250,401	1,631,224	4,532,902	5,913,446
Other liabilities		154,104	99,893	558,651	362,128
Deferred revenue		(30,185)	75,348	(109,425)	273,148
Net cash from operating activities		1,115,671	55,989	4,044,484	202,969
INVESTING ACTIVITIES					
Purchase of investments, net		(191,339)	(237,245)	(693,634)	(860,051)
Purchase of investment properties, net		(31,104)	(57,360)	(112,757)	(207,939)
Purchase of property and equipment, net		(211,039)	(32,769)	(765,050)	(118,793)
Net movement in investment in associates		(68,922)	(29,669)	(249,853)	(107,555)
Dividend income received		26,789	40,473	97,114	146,721
Net cash used in investing activities		(475,615)	(316,570)	(1,724,180)	(1,147,617)
FINANCING ACTIVITIES					
Issue of shares		-	306,312	0	1,110,430
Cash dividends paid		(111,498)	(69,839)	(404,198)	(253,177)
Cash received on cancellation of share options		31	266	112	964
Payment of Zakat		(7,558)	(5,804)	(27,399)	(21,040)
Net movement in treasury shares		(7,651)	1,310	(27,736)	4,749
Net cash (used in) from financing activities		(126,676)	232,245	(459,221)	841,926
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		513,380	(28,336)	1,861,083	(102,722)
Cash and cash equivalents at 1 January		854,805	883,141	3,098,804	3,201,526
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	1,368,185	854,805	4,959,887	3,098,804

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

1 ACTIVITIES

The consolidated financial statements of the group for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the banks' board of directors on 20 January 2009 and are subject to approval 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 (collectively "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 installment credit basis. The bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

The bank operates through 46 local branches (2007: 44) and employed 2,032 employees as of 31 December 2008 (2007: 1,969) of which 1,167 (2007: 1,110) are Kuwaiti nationals representing 57% (2007: 56%) 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.

New and revised International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretation Committee Interpretations (IFRIC) issued, but not yet effective
The following standards and interpretations have been issued by the IASB, but are not yet effective and not yet been adopted:

Revised IAS 1 – Presentation of Financial Statements (applicable for reporting periods beginning on or after 1 January 2009)

The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the group. The changes are not expected to be of any significance to the current level of disclosure in the consolidated financial statements.

Revised IFRS 3 – Business Combinations and Consequential Amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the reporting period be on or after 1 July 2009)

The main change to the standard that affects the group's current policies is that acquisition related costs are expensed in the consolidated income statement in the periods in which the costs are incurred and the services received, except for the cost of issue of equity (recognized directly in equity). Currently the group recognizes acquisition costs as part of the purchase consideration. Also changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor it will give rise to a gain or loss in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 8 – Operating Segments (applicable for reporting periods beginning on or after 1 January 2009)

The standard relates to disclosure requirements for segmental information and replaces IAS 14 – Segmental Reporting. The new standard intends to disclose segment information in line with information provided to the top management.

Basis of consolidation
The consolidated financial statements include the financial statements of the bank for the year ended 31 December 2008 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 unrealized 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 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 up to the date of disposal, as appropriate.

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 recognized 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 recognized directly in the consolidated 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 amortized cost.

Receivables
Receivables are financial assets originated by the group and principally comprise Murabaha, Wakala, Istisna'a and receivables. These are stated at amortized 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 installments or deferred to a specific future time.

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

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

Impairment is determined as follows:
(a) For assets carried at amortized 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets(continued)

(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 recognized in prior years is recorded when there is an indication that the impairment losses recognized 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 recognized. Except for equity instruments classified as available for sale, reversals of impairment losses are recognized in the consolidated income statement to the extent the carrying value of the asset does not exceed its amortized cost at the reversal date; reversals in respect of equity instruments classified as available for sale are recognized in the fair value reserve.

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

Financial guarantees

In the ordinary course of business, the group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognized in the consolidated income statement 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 amortization. When a payment under the guarantee is likely to become payable, the present value of the expected payments less the unamortized 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 recognized 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 of, 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)
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 recognized 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 amortized. The group recognizes in the consolidated income statement its share of the total recognized 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 recognized directly in equity, fair value reserve or foreign exchange translation reserve as appropriate.

Unrealized gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealized 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 recognized 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 net realizable 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 recognized 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 recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized 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.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment(continued)

• 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 organized 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.

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

Investment properties
For local investment properties, fair value is determined by the bank'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.

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

Share-based payment transactions
Entitled employees (including 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 recognized in the consolidated income statement.

The cost of equity settled transactions is recognized, 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 recognized 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

Revenue recognition
1. Income from Murabaha, Istisna'a and Wakala is recognized on a weighted time apportionment basis and is included under financing income
2. Income from leased assets is recognized on a pattern reflecting a constant periodic return on the net investment outstanding and is included under financing income.
3. Operating lease income is recognized on a straight line basis in accordance with the lease agreement.

4. Rental income from investment properties is recognized on an accruals basis.
5. Dividend income, including dividend income on own shares (held on behalf of depositors), is recognized when the right to receive payment is established.
6. Fee and commission income is recognized 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 included within net gain from dealing in foreign currencies 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 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. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized 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 recognized in the consolidated income statement.

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

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 recognized amounts and the group intends to settle on a net basis so as to realize 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. These are disclosed separately in the consolidated financial statements.

Judgments
In the process of applying the group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Basis of Transalation

The United States dollar amounts in the consolidated income statement, consolidated balance sheet and consolidated statement of cash flow represent supplementary information and have been translated at a rate of KD 0.27585 per USD which represents the mid-market rate at 31 December 2008

3 INVESTMENT INCOME

	2008 KD 000's	*2007* *KD 000's*
Gain on sale of trading properties	**42,368**	43,279
Rental income	**13,661**	15,962
Dividend income	**19,910**	24,326
Gain on part sale of associates	**3,183**	62,955
Gain on part sale of subsidiaries	**13,283**	14,018
Gain on sale of investments	**72,284**	59,395
Share of results of associates (Note 10)	**42,991**	45,422
Other investment income	**2,217**	1,040
	209,897	266,397

4 IMPAIRMENT

	2008 KD 000's	*2007 KD 000's*
Provision for impairment of receivables :		
International Murabahas	**6,181**	(992)
Local Murabahas and Wakala	**124,615**	9,831
Istisna'a and other receivables	**22,645**	8,542
	153,441	17,381
Impairment of leased assets	**8,886**	5,702
Impairment of investments	**48,416**	7,001
(Reversal of) impairment of investment properties	**(2,537)**	198
Impairment of other assets	**2,734**	7,897
	210,940	38,179

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 156,960 thousand (2007: KD 275,266 thousand) and the weighted average number of ordinary shares outstanding during the year of 2,057,501 thousand (2007: 1,999,211 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 shares issued during the year ended 31 December 2008.

6 CASH AND CASH EQUIVALENTS

	2008 KD 000's	*2007 KD 000's*
Cash	**47,836**	38,630
Balances with Central Banks	**146,289**	350,398
Balances with banks and financial institutions - current accounts	**162,190**	84,379
Balances with banks and financial institutions - exchange of deposits	**11,747**	80,158
Cash and balances with banks and financial institutions	**368,062**	553,565
Short-term international Murabaha – maturing within 3 months of contract date	**932,731**	157,945
Tawarruq balances with Central Bank of Kuwait (included within short-term international Murabaha)	**80,249**	149,519
Exchange of deposits – maturing after 3 months of contract date	**(12,857)**	(6,224)
Cash and cash equivalents	**1,368,185**	854,805

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:

6 CASH AND CASH EQUIVALENTS (continued)

	2008 KD 000's	*2007 KD 000's*
Due from banks and financial institutions	132,330	167,587
Due to banks and financial institutions	(120,583)	(87,429)
	11,747	80,158

Included in the consolidated balance sheet as net balances:

	2008 KD 000's	*2007 KD 000's*
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	21,897	80,158
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 13)	(10,150)	-
	11,747	80,158

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:

	2008 KD 000's	*2007 KD 000's*
International Murabahas	725,312	813,330
Local Murabahas and Wakala	3,570,096	2,955,664
Istisna'a and other receivables	783,487	370,492
	5,078,895	4,139,486
Less: provision for impairment	(299,107)	(151,355)
	4,779,788	3,988,131

7 RECEIVABLES (continued)

The distribution of receivables is as follows:

	2008 KD 000's	2007 KD 000's
Industry sector		
Trading and manufacturing	1,409,442	1,059,330
Banks and financial institutions	2,176,638	2,235,740
Construction and real estate	853,582	604,684
Other	639,233	239,732
	5,078,895	4,139,486
Less: provision for impairment	(299,107)	(151,355)
	4,779,788	3,988,131

	2008 KD 000's	2007 KD 000's
Geographic region		
Middle East	3,899,608	3,192,378
Western Europe	7,382	265,290
Other	1,171,905	681,818
	5,078,895	4,139,486
Less: provision for impairment	(299,107)	(151,355)
	4,779,788	3,988,131

Provision for impairment of receivables from customers for finance facilities are as follows:

	Specific		General		Total	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Balance at beginning of year	78,234	99,647	73,121	64,808	151,355	164,455
Provided during the year	89,745	7,971	63,696	9,410	153,441	17,381
Amounts written off	(3,242)	(29,384)	(2,447)	(1,097)	(5,689)	(30,481)
Balance at end of year	164,737	78,234	134,370	73,121	299,107	151,355
International Murabahas	3,540	1,260	6,238	7,008	9,778	8,268
Local Murabahas and Wakala	152,214	70,175	109,098	60,872	261,312	131,047
Istisna'a and other receivables	8,983	6,799	19,034	5,241	28,017	12,040
	164,737	78,234	134,370	73,121	299,107	151,355

7 RECEIVABLES (continued)

At 31 December 2008, as per CBK regulations, non-performing finance facilities amounted to KD 642,168 thousand (2007: KD 156,031 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
2008			
Finance facilities	**6,309**	**635,859**	**642,168**
Provision for impairment	**6,309**	**158,428**	**164,737**
2007			
Finance facilities	6,368	149,663	156,031
Provision for impairment	6,368	71,866	78,234

The provision charge (release) for the year on unfunded facilities is KD 157 thousand (2007: KD 134 thousand). The available provision on unfunded facilities of KD 6,527 thousand (2007: KD 6,684 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 amounting to KD 32 million (2007: KD 32 million) has been retained as 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.

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:

	2008 KD 000's	*2007 KD 000's*
Gross investment	**1,248,439**	995,356
Unearned revenue	**(38,940)**	(45,911)
Impairment	**(27,674)**	(18,788)
	1,181,825	930,657

8 LEASED ASSETS (continued)

Impairment on leased assets is as follows:

	Specific		General		Total	
	2008	2007	2008	2007	2008	2007
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at beginning of year	4,145	274	14,643	12,812	18,788	13,086
Provided during the year	4,841	3,871	4,045	1,831	8,886	5,702
Balance at end of year	8,986	4,145	18,688	14,643	27,674	18,788

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

	2008 KD 000's	*2007 KD 000's*
Within one year	790,674	589,539
One to five year	369,436	275,887
After five years	88,329	129,930
	1,248,439	995,356

The unguaranteed residual value of the leased assets at 31 December 2008 is estimated at KD 63,099 thousand (2007: KD 65,138 thousand).

9 INVESTMENTS

Investments comprise:	2008 KD 000's	*2007 KD 000's*
Quoted equity investments	99,259	81,253
Unquoted equity investments	311,798	270,034
Managed portfolios (mainly comprising quoted equity investments)	300,184	173,836
Mutual funds	114,092	109,343
Sukook	213,269	261,632
	1,038,602	896,098
Investments carried at fair value	709,521	544,664
Investments carried at cost less impairment	329,081	351,434
	1,038,602	896,098

Included in managed portfolios is an amount of KD 27,952 thousand (2007: KD 36,535 thousand) which represents the group's investment in 17,469 thousand (2007: 12,956 thousand) of the bank's shares on behalf of depositors, equivalent to 0.85 % of the total issued share capital at 31 December 2008 (2007: 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 INVESTMENTS IN ASSOCIATES

The major associates of the group are as follows:

	Interest in equity % 2008	Interest in equity % 2007	Country of registration	Principal activities	Financial statements reporting date
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	**27**	27	Kuwait	Islamic Takaful insurance	30 September 2008
Gulf Investment House K.S.C. (Closed)	**20**	25	Kuwait	Islamic investments	30 September 2008
Liquidity Management Centre Company B.S.C. (Closed)	**25**	25	Bahrain	Islamic banking and financial services	30 September 2008
National Bank of Sharjah PJSC	**20**	20	United Arab Emirates	Islamic banking services	30 September 2008
Indirect investments in associates held through consolidated subsidiaries:					
A'ayan Leasing & Investment Company K.S.C. (Closed)	**16**	16	Kuwait	Leasing and Islamic investment	30 September 2008
Munsha'at Real Estate Projects Co K.S.C. (Closed).	**30**	45	Kuwait	Real estate projects management	30 September 2008
Sokouk Real Estate Development Company K.S.C. (Closed)	**49**	-	Kuwait	Real estate development	30 September 2008

Carrying amount of investment in associates:

	2008 KD 000's	*2007 KD 000's*
At 1 January	**341,279**	210,538
Additions	**138,263**	185,505
Disposals	**(20,885)**	(78,965)
Reclassification to investments on part sale of associates	**(16,795)**	-
Reclassification to investment in subsidiary on acquisition of controlling stake	**(18,237)**	-
Share of results of associates (Note 3)	**42,991**	45,422
Dividends received	**(6,879)**	(16,147)
Share of changes in associates' fair values reserve (Note 15)	**(878)**	51
Foreign exchange translation adjustment	**(9,363)**	(5,125)
At 31 December	**449,496**	341,279

10 INVESTMENTS IN ASSOCIATES (continued)

During the year, the major acquisitions and disposals of equity interest in certain associates, mainly through subsidiaries, 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
Nafias Holding Company K.S.C.	20	15,834	15,469	365	Kuwait
Soukouk Real Estate Development Company K.S.C.	20	63,914	63,520	394	Kuwait
National Bank of Sharjah PJSC (through participation in rights issue)	-	25,523	25,523	-	UAE

Disposals:

	% Holding sold	Carrying value (including goodwill) KD 000's	Sales consideration KD 000's	Gain on sale KD 000's
Soukouk Real Estate Development Company	17	4,792	5,186	394
Kuwait Energy Holding Company	30	3,365	3,600	235
		8,157	8,786	629

Share of associates' assets and liabilities:

	2008 KD 000's	*2007 KD 000's*
Assets	**840,416**	763,083
Liabilities	**(442,734)**	(466,682)
Net assets	**397,682**	296,401

Share of associates' revenue and results:

	2008 KD 000's	*2007 KD 000's*
Revenue	**117,734**	93,167
Results	**42,991**	45,422

Investments in associates with a carrying amount of KD 199,087 thousand (2007: KD 108,825 thousand) have a fair value of KD 154,037 thousand at 31 December 2008 (2007: KD 196,294 thousand) based on published quotes. The remaining associates with a carrying value of KD 250,408 thousand (2007: KD 232,454 thousand) are unquoted companies and reliable fair value information is not readily available. The carrying amount of investments in associates includes goodwill of KD 51,814 thousand (2007: KD 44,878 thousand).

11 INVESTMENT PROPERTIES

	2008 KD 000's	2007 KD 000's
At 1 January	247,300	191,407
Purchases	44,261	70,164
Disposals	(12,900)	(12,297)
Depreciation charged for the year	(1,624)	(1,776)
Impairment losses released (charged)	2,537	(198)
At 31 December	279,574	247,300
Cost	297,254	265,721
Accumulated depreciation	(15,763)	(13,967)
Impairment	(1,917)	(4,454)
	279,574	247,300

Investment properties with carrying value of KD 37,932 thousand (2007: KD 36,772 thousand) and their rental income are mortgaged and assigned against Murabaha payable amounting to KD 34,939 thousand (2007: KD 30,486 thousand). The fair value of investment properties at the balance sheet date is KD 295,586 thousand (2007: KD 284,727 thousand).

12 PROPERTY AND EQUIPMENT

	Land KD 000's	Buildings KD 000's	Aircraft and engines KD 000's	Furniture, fixtures and equipment KD 000's	Motor vehicles KD 000's	Properties under development KD 000's	Total KD 000's
Cost							
At 1 January 2008	9,861	74,981	259,773	64,997	32,145	76,768	518,525
Arising on consolidation	317	136	-	33	-	27,231	27,717
Additions	2,771	1,666	38,336	18,611	19,134	133,584	214,102
Disposals	-	(668)	(12,443)	(3,900)	(23,821)	(1,033)	(41,865)
At 31 December 2008	12,949	76,115	285,666	79,741	27,458	236,550	718,479
Depreciation							
At 1 January 2008	-	33,300	28,763	41,682	7,292	-	111,037
Arising on consolidation	-	-	-	17	-	-	17
Depreciation charge for the year	-	2,190	9,459	8,650	6,624	-	26,923
Relating to disposals	-	(151)	(1,490)	(2,226)	(6,970)	-	(10,837)
At 31 December 2008	-	35,339	36,732	48,123	6,946	-	127,140
Net carrying amount							
At 31 December 2008	**12,949**	**40,776**	**248,934**	**31,618**	**20,512**	**236,550**	**591,339**
At 31 December 2007	9,861	41,681	231,010	23,315	24,853	76,768	407,488

12 PROPERTY AND EQUIPMENT (continued)

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 is 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, is attributed only to the equity holders of the bank.

One of the subsidiaries holds aircraft fleet with carrying value of KD 145,865 thousand (2007: 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 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 117,714 thousand (2007: KD 154,083 thousand) and is receivable as follows:

	2008 KD 000's	*2007 KD 000's*
Income receivable within one year	27,686	29,740
Income receivable within one year to five years	69,131	85,404
Income receivable after five years	20,897	38,939
	117,714	154,083

13 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2008 KD 000's	*2007 KD 000's*
Current accounts	18,534	4,772
Murabaha payable	1,445,048	1,069,823
Exchange of deposits (Note 6)	10,150	-
Obligations under finance leases (Note 12)	121,720	111,796
	1,595,452	1,186,391

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 obligations under finance leases are secured by the aircraft (Note 12). The installments payable within one to five years are KD 83,179 thousand and installments payable after five years are KD 38,541 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 under Islamic Shareea'a.

14 DEPOSITORS' ACCOUNTS (continued)

ii) Investment deposits comprise Mustamera and 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 ("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, under 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 has determined the depositors' share of profit at the following rates:

	2008 **% per annum**	*2007* % per annum
Investment deposits - ("Mustamera")	**4.300**	8.632
Investment deposits - ("Sedra")	**3.344**	6.714
Investment savings accounts ("Tawfeer")	**2.867**	5.755

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 analyzed as follows:

	2008 **KD 000's**	*2007* *KD 000's*
Balance at 1 January	**86,843**	66,645
Change in fair value during the year	**(48,318)**	38,011
Gain realized during the year	**(59,253)**	(17,864)
Share of changes in associates' fair value reserves (Note 10)	**(878)**	51
Impairment losses transferred to the income statement	**33,000**	-
Balance at 31 December	**11,394**	86,843

Unrealized gains on revaluation of available for sale investments recognized directly in fair value reserve include KD 1,803 thousand (2007: KD 1,206 thousand) relating to unquoted equity investments resulting from the use of 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 10 March 2008, the authorized share capital of the bank was increased from KD 171,535 thousand to KD 205,842 thousand by way of issuance of 20% bonus shares amounting to KD 34,307 thousand. Accordingly, the authorized, issued and fully paid-up share capital at 31 December 2008, comprises 2,058,415 thousand shares (31 December 2007: 1,715,350 thousand shares) of 100 fils each.

18 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The board of directors of the bank have proposed a cash dividend of 40% for the year ended 31 December 2008 (2007: 65%) and issuance of bonus shares of 12% (2007: 20%) 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 160 thousand (2007: KD 200 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 16,255 thousand equivalent to approximately 10% (2007: KD 28,474 thousand equivalent to approximately 10%), of the profit for the year (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor 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.

21% (2007: 35%) 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 Labor Support tax) has been transferred to voluntary reserve.

The share premium balance is not available for distribution.

20 CONSOLIDATED SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	Country of registration	Interest in equity % 2008	Interest in equity % 2007	Principal activities	Financial statements reporting date
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2008
KFH Private Equity Ltd.	Cayman	100	100	Islamic investment	30 September 2008
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2008
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate development and leasing	31 October 2008
Development Enterprises Holding Company K.S.C.	Kuwait	100	100	Infrastructure and Industrial investments	30 September 2008
Baitak Real Estate Investment Company	Kingdom of Saudi Arabia	100	100	Real Estate development and investment	30 September 2008
Kuwait Finance House B.S.C.	Bahrain	93	97	Islamic banking services	30 November 2008
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	30 September 2008
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2008
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	52	52	Aircraft leasing and financing services	30 September 2008
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	51	Real estate, investment,trading and real estate management	31 October 2008
Liquidity Management House K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2008

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:

	2008 KD 000's	*2007 KD 000's*
Acceptances and letters of credit	**192,152**	402,701
Guarantees	**1,036,772**	634,609
	1,228,924	1,037,310
Capital commitments	**1,463,323**	1,261,559

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 2008 KD 000's	Total 2007 KD 000's
Related parties						
Receivables	21,741	75,013	945	45,787	**143,486**	69,782
Due to banks and financial institutions	147,949	-	-	282	**148,231**	3,994
Depositors' accounts	45,628	12,818	1,583	1,749	**61,778**	28,566
Commitments and contingencies	122	851	-	8,174	**9,147**	2,345

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

	The number of Board Members or Executive Officers 2008	2007	The number of related parties 2008	2007	2008 KD 000's	2007 KD 000's
Board Members						
Finance facilities	**11**	15	**16**	13	**73,694**	7,645
Credit cards	**5**	5	**-**	8	**33**	101
Deposits	**24**	27	**104**	76	**82,627**	7,341
Collateral against financing facilities	**1**	4	**4**	-	**176**	175
Executive officers						
Finance facilities	**20**	15	**4**	7	**4,906**	1,304
Credit cards	**11**	5	**4**	12	**29**	37
Deposits	**26**	20	**84**	103	**4,925**	2,534
Collateral against finance facilities	**8**	15	**1**	1	**4,852**	1,929

Compensation of key management personnel is as follows:

	2008 KD 000's	*2007 KD 000's*
Short-term employee benefits	**3,046**	4,457
Termination benefits	**6,476**	6,365
	9,522	10,822

23 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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 2008

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	368,062	-	-	-	368,062
Short-term international Murabaha	1,306,878	5,275	-	-	1,312,153
Receivables	725,311	710,186	3,284,736	59,555	4,779,788
Trading properties	-	57,590	-	-	57,590
Leased assets	-	117,888	1,063,937	-	1,181,825
Investments	-	1,038,602	-	-	1,038,602
Investments in associates	-	449,496	-	-	449,496
Investment properties	-	279,574	-	-	279,574
Other assets	15,885	309,624	63,001	97,203	485,713
Property and equipment	595	69,466	93,460	427,818	591,339
	2,416,731	3,037,701	4,505,134	584,576	10,544,142
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,595,452	-	-	-	1,595,452
Depositors' accounts	-	-	6,611,556	-	6,611,556
Other liabilities	22,097	34,387	166,073	171,476	394,033
Deferred revenue	355	-	343,802	269	344,426
Fair value reserve	-	11,394	-	-	11,394
Foreign exchange translation reserve	-	(7,548)	-	-	(7,548)
	1,617,904	38,233	7,121,431	171,745	8,949,313
Income	19,663	220,956	623,288	20,946	884,853
Impairment	6,181	45,879	156,146	2,734	210,940
Profit before distribution to depositors	7,615	78,779	300,593	10,058	397,045

23 SEGMENTAL ANALYSIS (continued)

31 December 2007

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	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
Investments	-	896,098	-	-	896,098
Investments 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 and foreign exchange translation reserve					
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
	1,190,630	149,555	5,925,764	125,873	7,391,822
Income	87,430	193,663	523,018	27,037	831,148
Impairment	(992)	7,199	24,075	7,897	38,179
Profit before distribution to depositors	60,737	134,539	363,342	18,783	577,401

23 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

	Assets		Liabilities		Contingencies and commitments under letters of credit and guarantees	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Geographical areas:						
The Middle East	7,772,279	6,860,816	7,142,849	5,775,399	270,565	283,721
North America	186,014	116,464	85,962	56,183	2,784	3,248
Western Europe	352,528	264,683	44,611	77,788	13,921	16,239
Other	2,233,321	1,555,953	1,327,619	1,019,029	941,654	734,102
	10,544,142	8,797,916	8,601,041	6,928,399	1,228,924	1,037,310

	Local		International		Total	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Income	553,675	553,822	331,178	277,326	884,853	831,148
Profit before distribution to depositors	235,149	427,872	161,896	149,529	397,045	577,401

24 CONCENTRATION OF ASSETS AND LIABILITIES

	2008 KD 000's	*2007 KD 000's*
Trading and manufacturing	2,970,684	2,260,537
Banks and financial institutions	3,248,546	3,040,980
Construction and real estate	2,424,951	1,989,295
Other	1,899,961	1,507,104
	10,544,142	8,797,916

24 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(b) The distribution of liabilities was as follows:

	Banking KD 000's	Non-banking KD 000's	Total 2008 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2007 KD 000's
Geographic region						
The Middle East	6,864,896	277,953	7,142,849	5,502,977	272,422	5,775,399
North America	5,673	80,289	85,962	7,978	48,205	56,183
Western Europe	17,013	27,598	44,611	4,350	73,438	77,788
Other	1,261,327	66,292	1,327,619	986,760	32,269	1,019,029
	8,148,909	452,132	8,601,041	6,502,065	426,334	6,928,399

	2008 KD 000's	*2007 KD 000's*
Industry sector		
Trading and manufacturing	1,278,497	816,167
Banks and financial institutions	4,145,157	3,333,307
Construction and real estate	313,182	261,090
Other	2,864,205	2,517,835
	8,601,041	6,928,399

25 FOREIGN CURRENCY EXPOSURE

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

	2008 KD 000's Equivalent Long(Short)	*2007 KD 000's Equivalent Long(Short)*
U.S. Dollars	80,365	103,231
Sterling Pounds	37,042	26,800
Euros	2,523	(2,046)
Gulf Cooperation Council currencies	37,841	25,758
Others	54,109	55,802

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 designed to provide all the necessary information to assess and conclude on the risks of the group.

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

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

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

b) Risk management and reporting systems

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

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

Risk mitigation
As part of its overall risk management, the bank uses certain financial 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
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 decentralized credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by

27 CREDIT RISK (continued)

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 (net of provisions), before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2008 KD 000's	Gross maximum exposure 2007 KD 000's
Balances with banks and financial institutions	6	320,226	514,935
Short-term international Murabaha		1,312,153	1,067,291
Receivables	7	4,779,788	3,988,131
Leased assets	8	1,181,825	930,657
Investments – Sukook	9	213,269	261,632
Other assets		381,626	215,451
Total		8,188,887	6,978,097
Contingent liabilities		1,228,924	1,037,310
Commitments		1,463,323	1,261,559
Total		2,692,247	2,298,869
Total credit risk exposure		10,881,134	9,276,966

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 single customer as of 31 December 2008 was KD 145,000 thousands (2007: KD 109,149 thousands) before taking account of collateral or other credit enhancements and KD 120,212 thousands (2007: KD 109,149 thousands) net of such protection.

27 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

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

	Banking KD 000's	Non-banking KD 000's	Total 2008 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2007 KD 000's
Geographic region						
The Middle East	5,677,580	233,129	5,910,709	5,048,154	232,175	5,280,329
North America	94,046	78,901	172,947	82,672	55,631	138,303
Western Europe	141,615	34,990	176,605	158,006	8,274	166,280
Other	1,905,821	22,805	1,928,626	1,378,118	15,067	1,393,185
	7,819,062	369,825	8,188,887	6,666,950	311,147	6,978,097

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 2008 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2007 KD 000's
Trading and Manufacturing	1,828,638	64,080	1,892,718	2,775,185	-	2,775,185
Banks and financial Institutions	2,907,408	91,680	2,999,088	1,428,144	183,787	1,611,931
Construction and real Estate	1,623,404	151,778	1,775,182	1,400,590	56,606	1,457,196
Other	1,459,612	62,287	1,521,899	1,063,031	70,754	1,133,785
	7,819,062	369,825	8,188,887	6,666,950	311,147	6,978,097

27 CREDIT RISK (continued)

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 2008 KD 000's	Standard grade 2008 KD 000's	Past due or impaired 2008 KD 000's	Total 2008 KD 000's
Receivables:				
International Murabahas	688,821	11,497	-	700,318
Local Murabahas and Wakala	362,758	2,780,102	645,943	3,788,803
Istisna'a and other receivables	27,971	247,885	14,811	290,667
	1,079,550	3,039,484	660,754	4,779,788
Leased assets	806,022	291,100	84,703	1,181,825
Investments - sukook	123,884	89,385	-	213,269
	2,009,456	3,419,969	745,457	6,174,882

	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 and Wakala	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
Investments - sukook	261,632	-	-	261,632
	3,965,119	993,885	221,416	5,180,420

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

	Less than 30 days 2008 KD 000's	31 to 60 days 2008 KD 000's	61 to 90 days 2008 KD 000's	Total 2008 KD 000's
Local Murabahas	226,346	67,951	19,399	313,696
Istisna'a and other receivables	14,320	2,206	946	17,472
Leased assets	807	34,262	16,068	51,137
	241,473	104,419	36,413	382,305

Credit quality per class of financial assets (Continued)

	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

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

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

Management monitors the 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 2008 amounts to KD 48,793 thousand (2007: KD 45,484 thousand).

The fair value of collateral that the group holds relating to finance facilities past due but not impaired as at 31 December 2008 was KD 139,308 thousand (2007: KD 244,818 thousand). The collateral consists of cash, securities, letters of guarantee and real estate assets.

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:

	2008 %	*2007 %*
31 December	24	26
Average during the period	24	33
Highest	27	42
Lowest	20	26

The table below summarizes the maturity profile of the group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the 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 undiscounted liabilities at 31 December 2008 is as follows:

					Total KD 000's
Assets					
					368,062
					1,312,153
					4,779,788
					57,590
					1,181,825
					1,038,602
					449,496
					279,574
					485,713
					591,339
	3,178,872	1,442,640	1,088,480	4,834,150	10,544,142
Liabilities					
					1,595,452
					6,611,556
					394,033
	4,103,567	331,301	208,552	3,957,621	8,601,041

The maturity profile of assets and undiscounted 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
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

28 LIQUIDITY RISK (continued)

10.5% of the group's liabilities are expected to become due in less than one year at 31 December 2008 (31 December 2007: 10%).

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
2008						
Contingent liabilities	838,959	49,710	122,055	137,954	80,246	**1,228,924**
Commitments	198,632	40,608	199,233	284,025	740,825	**1,463,323**
Total	**1,037,591**	**90,318**	**321,288**	**421,979**	**821,071**	**2,692,247**
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

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 reprising 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 2008 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).

29 MARKET RISK (continued)

Currency	Change in currency rate in % 2008	Effect on profit 2008 KD 000's	Effect on fair value reserve 2008 KD 000's	Change in currency rate in % 2007	Effect on profit 2007 KD 000's	Effect on fair value reserve 2007 KD 000's
USD	-5	(4,018)	1,818	-2	(2,065)	1,942
GBP	-10	(3,704)	(172)	+2	536	59

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 2008 %	Effect on fair value reserve 2008 KD 000's	Change in equity price 2007 %	Effect on fair value reserve 2007 KD 000's
Kuwait Stock Exchange	-15	(27,589)	-10	(16,727)
Other GCC indices	-20	(1,281)	+12	905

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

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

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

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 maximize 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.

30 CAPITAL MANAGEMENT (Continued)

	Actual 2008 KD 000's	*Actual 2007 KD 000's*
Tier 1 capital	**1,512,704**	1,294,594
Tier 2 capital	**961**	25,245
Total capital	**1,513,665**	1,319,839
Risk weighted assets	**6,961,343**	5,674,430
Total capital ratio	**22%**	23%
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 any significant 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 2008 amounted to KD 1,137,988 thousand (2007: KD 486,825 thousand).

Fees and commission income include fees of KD 4,343 thousand (2007: KD 3,398 thousand) arising from trust and fiduciary activities.

34 ADJUSTMENT TO FINANCING INCOME

Financing income has been reduced by KD 596 thousand during the year (2007: 556 thousand). 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 2007.