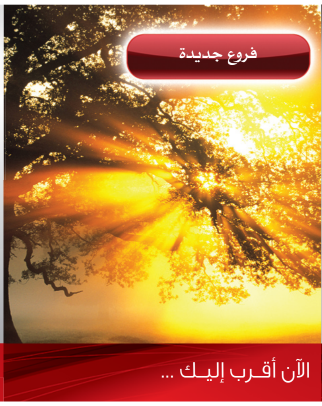
Annual Report 2007



بنك بوبيان
BOUBYAN BANK
إهتمامنا... سر تميّزنا

بسم الله الرحمن الرحيم

IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

His Highness

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

Amir of The State of Kuwait

His Highness

Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of The State of Kuwait

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فروع بنك بوبيان وأجهزة السحب الآلي

Board Members

Mr. Yacob Yousef Al-Muzaini
Chairman & Managing Director

Mr. Mohammed Abdulaziz Al-Alloush
Vice Chairman

Mr. Ahmed Abdullatif Al-Dousiri
Member

Mr. Ahmed Mohamed Boodai
Member

Mr. Dawood Salman Al-Dabous
Member

Mr. Faisal Mohamed Al-Kandari
Member

Mr. Abdul Rahman Manahi Al-Osaimi
Member

Mr. Nabil Ahmed Ameen
Member

Mr. Yousef Yaseen Malallah
Member

The Sharia Supervisory Committee Members

Sheikh Ahmad Bezea Al-Yaseen
Chairman

Sheikh Dr. Ajeel Jasim Al-Nashmi
Vice Chairman

Sheikh Dr. Mohammed Abdulrazaq Al-Tabtabae
Member

Sheikh Dr. Esam Khalaf Al-Anezi
Member

Sheikh Dr. Saud Mohamed Al-Rabea
Member

Executive Management

Mr. Yacob A. Al-Awadi
General Manager, Treasury Group
Acting General Manager, Operations & Services Group

Mr. Yousef J. Al-Obaid
General Manager, Finance Group
Acting General Manager, Banking Services Group

Mr. Fuad S. Al-Shehab
General Manager, Investment Group

Ahmad F. Al-Gebali
Chief Financial Officer

Adel A. Al-Hammad
Head, Human Resources Group

Mr. Kurien Varghese
Head, IT Group

Mr. Abdul Rahman Hamza
Chief Audit Executive

Valued Shareholders,
Peace and Pray of Allah be upon You,

I am so delighted to present to you the 3rd Annual Report including the Board's Report, Consolidated Financial Statements of the Bank and its subsidiaries, Independent Auditors' Report, and Fatwa and Shariah Supervisory Board's Report on the Bank's operations for the year ending 31 December 2007. Included also in this Report is an overview on the Bank's operations and findings since incorporation till 31 December 2007.

Valued Shareholders,
Since its incorporation, Boubyan Bank has been facing a tough competition with traditional and Islamic banks and financial institutions whose capital bases and strong presence in the local, regional, and international levels are well recognized by everyone; yet, the Bank has, against the most optimistic market observers, wonderfully created a recognized status for itself amidst this tough competition. Thanks to Allah, the well-established policies and strategies, and the future visions adopted by the Bank and came into effect by the Bank's Management and human resources who have saved no effort from the date of its incorporation to date, we have far exceeded all expectations, achieved the majority of our aspired goals and objectives, and the Bank has leaped from the state of evolution and incorporation into the stage of development and geographical widespread.

We have not dreaming of constructing a financial entity only; rather, we have been looking forward for constructing a financial edifice that takes part in the overall renaissance enjoyed by the Kuwaiti economy at the time being and achieves landmarks in the booming Islamic banking industry that is witnessing an unprecedented growth rates worldwide. Thanks to the good faith, much effort, and the widely-recognized expertise of the Bank, the dream has come true as evidenced by the Group's results that are marketwise believed to be record achievements as far as the recent incorporation of the Bank and the tough competition are taken into consideration.

Boubyan Bank made several achievements over the last three years that were reflected on the Bank's financial results of the year ending 31 December 2007, as the operating profit reached KD 19.4 million compared to KD 10.8 million for the last year with an increase of about 80%. Operating income edged up by 64% to reach KD 54.3 million compared to KD 33.2 million during 2006. As far as the assets are concerned, total assets reached KD 745.9 million by the end of 2007 compared to KD 504.3 million in 2006 with a growth rate of 48%. Total equity increased to KD 139.5 million compared to KD 120.4 million in 2006 with a growth rate of 16%. Return on average assets increased to 2.98% and return on average equity to 14.3%.

On the side of the operations, the Bank's branches increased to 15 branches offering all banking services out of which there is a branch for private banking, ATM machines are increased to 39 machines spreading throughout Kuwait, and the Bank's efforts are crowned by the provision of an integrated chain of the banking services that can be easily accessed through the Bank website, the call center, and Boubyan telebanking service. The Bank dedicated itself during the last time for presenting and launching new and innovative products and services and for developing the banking services to cope with the local market requirements. Meanwhile, the Bank offered smart credit cards added to Boubyan Visa Cards and other cards that were highly demanded in the market. The Bank will not suffice itself by these achievements; rather, we will produce multiple banking services and finance and investment instruments that will add value to the Islamic banking.

On the side of investments and to diversify its investment portfolio, the Bank has started up Boubyan Takaful Insurance Company and Boubyan Capital Investment Company, in addition to initiating business in Bank of London & Middle East, UK, that serves as a real starting off towards the global market.

Valued Shareholders,

We discussed the Bank's expansion plans and strategies few months ago, and are now reviewing the Bank's achievements after it has realized all its constitutional goals and objectives. I wholeheartedly make clear that we have a strong base for a financial institution that will have a recognized ranking on both local and international levels. I am also pleased to present to you a detailed report on the Bank's achievements and the major developments achieved by the different Bank's sectors and departments that have largely affected the Bank's results and qualified it to be among the major financial institutions at the local level and a promising one on the international level.

We do not believe that maintaining success is more difficult than achieving it, but moving from a success to another requires hard work and persistence for the proper implementation of the well-established plans and careful studies. Hence, the Executive Management has based its future plans on two main aspects; local and foreign expansions, which shall have the same priority.

On the local expansion and the proposed development, the Bank's Management will make use of the current national economic prosperity and the boom of the Islamic banking industry through launching innovative Sharia'h-compliant products and services that meet the needs and requirements of individuals who represent the major part of the local market. The Bank will also make use of the increased net worth of creditworthy individuals through providing wealth management services and high quality, cost-effective local and international services. The Bank will also give due care to expand its branch network to cover all areas throughout the State of Kuwait through increasing the number of branches so that Boubyan services will be accessible by all segments of consumers.

On the side of foreign expansion, having reassured itself on its ability to manage all investment opportunities and businesses in the foreign markets such as Indonesia, UK, Europe, Japan, and US, the Bank's Management will review a number of investment opportunities with the aim to provide investment opportunities with high revenues and the lowest possible risk profile, target the stable markets, and diversify its investment portfolio to keep any potential market risks to a minimum to ensure the best interest for the Bank, its shareholders, partners, and the national economy in general.

To wrap up, I would like to express my appreciation and gratitude to the Central Bank of Kuwait (CBK) for its cooperation with Boubyan Bank during its incorporation and ongoing support during its development and growth. I would also seize the opportunity to express my heartfelt appreciation and gratitude to my colleagues; members of the Executive Management and the staff members who are believed to be the real assets of the Bank for their huge efforts during the last time. I would like to express my appreciation and recognition for you; our valued shareholders and clients, for your ever trust and ongoing support for the Bank, praying for Allah to achieve your hopes and aspirations.

May Al-Mighty Allah bless our deeds,

Peace and Pray of Allah be upon You,

Yacob Y. Al-Muzaini
Chairman & Managing Director

3 years of achievements
2005 - 2007

This report analyzes the facts and results of Boubyan Bank performance for the period from 2005 until 31 December 2007 -2007. This depicts also the bank wise achievements and group and department wise developments against the preset targets and strategic plans.

Boubyan Bank and Kuwait Economy

As any other financial institution, Boubyan Bank is affected by the developments and changes that prevail, from time to another, in the global economy in general and GCC and Kuwaiti economies in particular. Kuwait Economy is heavily dependant on the oil sector, whose revenues account for above 90% in the national income. The tremendous growth of economy over the preceding years is driven by the higher oil prices. The real GDP increased in 2006 by 10.6% and then decreased to 6% in 2007 due to the output cuts. However, the latter rate is still good in all cases. The economic sectors, chief amongst them the financial service sector, maintains unpreceded growth rate of circa 45% of the real GDP. This growth fuelled the enhanced government spending on infrastructure giving rise to more opportunities for the private sector. The inflation rate, which increased to 5%, remains the perceptible feature in 2007 due to the overall growth, enhanced consumption, higher liquidity and rising imports values. In 2007, the government depegged Kuwaiti Dinar from US Dollar to for pegging its currency with a basket of currencies to curb such inflation. Despite the opposite views, we believe that this step proves the state's sound monetary policy.

Kuwait economy is poised to grow at healthy rate in 2008 with the expected higher oil prices, enhanced government spending on infrastructure and the foreseen common GCC market.

Presence and Competition

Given the new entry and operations, None of the markets observers expected that such a young bank born in 2004 and operated in 2005 would be able, in just three years, to compete with the leading traditional and Islamic institutions and positioned among those offering a full range of shari'a-compliant innovative products and services.
In October 2007, Moody's Investors Service has assigned Baa2/Prime-2 long-term and short-term foreign currency deposit ratings. Under Moody's joint default analysis (JDA) methodology, the rating is supported by Boubyan's Baseline Credit Assessment of Ba2, a very high likelihood of systemic support and Kuwait's Aa2 local currency deposit ceiling. This assessment is a result of the bank's strong equity base, the high asset quality, the operating income enhanced by high profit margins and the quality of assets. Such assessment assigned for a 3-year old bank indicates the soundness of the bank's strategic planning and vision.

In all evaluation parameters, we are now among the major players in terms of growth rates, not only in the local markets but also in the international ones. Our financial performance amply demonstrate the strong financial health of the Bank, which recorded KD 6.9 million as per the first published financial statements approved by the bank's general assembly for 2005, KD 10.3 million in 2006, i.e. a hike by 49% and KD 18.6 million in 2007, i.e. a hike by 81% above 2006.

During 2005 - 2007 period, the operating income amounted to KD 14.8 million and KD 33.2 million and KD 54.3 million respectively at growth rates of 124% in 2006 and 64% in 2007. Similarly, the bank's assets witnessed a tremendous increase to total KD 328.5 million in 2005, KD 504.3 million in 2006 and KD 745.9 million in 2007 at growth rates of 54% in 2006 and 48% in 2007. Shareholders' equity increased from KD 106.9 million in 2005 to KD 120.4 million in 2006 and then to KD 139.5 million in 2007 at growth rates of 13% in 2006 and 16% in 2007.

These figures prove, beyond any doubt, that the bank maintains sound strategy accomplished by comprehensive management policies and organization structure, being the effective tool upon which the bank relied in drawing its strategic plans throughout the reporting period, giving rise to the currently seen developments in all of the bank's sectors. These developments extend to encompass the new and innovative products and services and the local and international investments that enables the bank to create, in short period, promising opportunities in international financial markets, which honor only companies that promote the well-being of all stakeholders, and measure the success of a Bank in other than merely financial terms.

The following sections include snapshots on certain financial highlights and developments in the various groups and departments of the bank during the period from 2005 to 2007.

Investment Group

The investment group's ultimate responsibility is to al¬locate the bank's resources among high return investments with the lowest risk possible. Investment group examined numerous direct investment opportunities in both local and international markets. In 2005, the bank subscripted in the capital increase of Indonesia-based "Bank Muamalat" to hold a stake of 21.28%. Bank Muamalat is the first Islamic bank in Indonesia and investment in which represents a strategic gateway for the bank into south east Asian markets.

In the second half of 2005, the bank launched its Takaful insurance arm, Boubyan Takaful Insurance Company, KSC, with an authorized capital of KD 10 million and fully paid up capital of KD 5 million to capitalize on the lucrative opportunities in the Islamic insurance market in Kuwait and the region by providing a full range of Takaful insurance products and services with those of the bank, and now BTIC is fully operating.

A New Bank in UK

In 2006, Boubyan Bank has accomplished, through Investment Group, the formalities for incorporating Bank of London & the Middle East plc ("BLME") with a capital of GBP 175 million, a 20% stake of which is held by Boubyan Bank. In 2007, BLME was licensed by the

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Financial Services Authority to conduct wholesale banking activities in accordance with Shari'a principles. BLME strives to be an active player in London's International financial center and a major Islamic Institution in the United Kingdom.

Indonesian Ijarah and financing company

In the first half of 2007, the bank participated in incorporation of Ijarah Indonesia Finance Company with a capital of US$ 10 million, 33.30% stake of which is held by the bank. In July 2007, the company has been granted the licenses from the relevant authorities in Indonesia to render financing services.

A US Industrial Fund

In February 2006, the bank established «Boubyan US Industrial Fund» with a total asset value of US$ 24.6 million to invest in the industrial properties, e.g. the storage and dispatch centers. The fund's expected IRR is 9%-10%.

European Real Estate Fund

In April 2006, the bank established Boubyan European Real Estate Fund with a total asset value of Euro 49 million to invest in the office buildings in France and Germany. The fund's expected IRR is 15%.

Boubyan Global Real Estate Fund

In October 2006, the bank established Boubyan Global Real Estate Fund with a capital of KD 5 to 100 million. The fund aims to distribute quarterly cash dividends through investing in income generating properties and units in investment properties funds as well as purchase in land plot to realize gains from their capital appreciation. The fund's expected IRR is 14%.

The 1st Islamically financed Real Estate Investment in Japan

This investment is part of a Japanese portfolio in Boubyan Global Real Estate Fund, sponsored by Boubyan Bank, Atlas Partners (Japan) and Hypo Real Estate Japan. This portfolio consists of office buildings in Tokyo. Value of the first three office buildings amounted to US$ 40 million. This portfolio is known as the first Islamically financed real estate investment in Japan that provides value added services to the investors seeking Japanese Shari'a-complaint investment properties.

UK Real Estate Opportunities Fund

In May 2007, the bank established UK Real Estate Opportunity Fund with a total asset value of Euro 20 million. The fund aims to invest in the opportunities trading in, and development of, the residential apartments in London. The fund's expected IRR is 15%.

Boubyan Real Estate Sukuk Fund

In November 2005, the bank established Boubyan Real Estate Sukuk Fund to invest in Sukuk Al-Intifa' of Zamzam Tower in Makka, KSA. The fund's term is 12 years and its total asset value amounts to KD 150 million. The expected IRR of the fund ranges from 12% to 14%.

Treasury Group

Treasury Group has rapidly grown up with the growth of the bank. The group structure contains various functions through Treasury Department (Dealing Room), Structured Finance & Syndication Department, Correspondent Banking Department and Private Banking Department. Since incorporation, Treasury Group strives to reinforce the bank's position in structured finance and enhance its abilities for deal sourcing through a team of experienced bankers, and build business relationships with regional and international institutions for the bank to be the first choice of customers and investors in the region.

Dealing Room

The Dealing Room is manned by highly experienced and professional dealers be engaged in liquidity management and matching assets and liabilities, International commodity Murabaha transactions on major metal exchange markets, Tawarruq transactions with top-rated international banks, well-known financial institutions, major corporations and reputable commodity traders, and Foreign Exchange.

Structured Finance & Syndication Department

Structured Finance & Syndication Department has achieved ground-breaking results in a number of areas, including the development of innovative money market funds with the aim to enhance the image of the bank in the market and accommodate the market demands. In addition, the department has successfully closed many groundbreaking transactions as sole or one of the Mandated Lead Arrangers, Shari'a Advisor, Documentation Agent and Paying Agent. Some of the deals taken place during the 2005 - 2007 period are Murabaha facility transactions exceeding US$ 1.75 billion for regional and international financial institutions such as ARCAPITA Bank, Shamel Bank and Gulf Finance House in Bahrain, ISKAN in Kuwait and leading companies in Turkey. The department represented the bank in similar deals for Sukuk issuance, e.g. Musharaka, Murabaha, Ijarah, etc. of a total value of more than US$ 1.2 for major companies and institutions such as Commercial Real Estate Company, National Real Estate Company, Sharja Islamic Bank, Saudi Dar Al-Alarkan Company, etc.

The department successfully developed various investment funds, e.g. Boubyan KWD Financial Fund, whose asset volume amounts to KD 142 million, and Boubyan US$ Financial Fund, whose asset value amounts to approximately US$ 100 million, paving the way for Boubyan Bank to be a major player in the money market fund sector. The department expect to offer Boubyan US$ Fund during the first quarter of 2008.

Correspondent Banking Department

Correspondent Banking Department plays a vital role in establishing and maintaining exceptional correspondent banking relationships with banks and other financial institutions both locally and globally. The Department caters to the many needs of any given bank and sets up reciprocal business methodology with them. In 2007, the department was ready to provide a full range of products and services by opening local and international corporate accounts and LCs and issuing guarantees in addition to another competitive services.
The bank also acted as trustee for nine Islamic funds in the current market.

Private Banking Department

A new private banking department has lately been set up under the Treasury Group to target high net worth individuals and institutional investors with the objective to coordinate and market the investment products of various Groups of Boubyan Bank, offer them advisory and wealth management services and thus solicit business from such wealthy individuals. Focus will be to provide such customers with tailor-made, innovative, high quality, competitive and value-added Islamic financial products and services through convenient and efficient distribution channels.

Finance Group

Finance Group has successfully attracted qualified and long-experienced bankers to set up financing policies and plans with the objective to provide various shari'a compliant financing services and products and to accommodate all the customers' requirements. Having done the above, Finance Group completed the necessary studies for the various products and the governing draft contracts, and got approval of Fatwa & Shari'a Supervisory Board. The group has experienced manager dedicated to not only review and approve finance extension but also to provide professional advisory services.

During the reporting period, the group enlarged its client bases and increased the financing portfolio to cover all sectors by rendering a full range of financing services for numerous corporate customers of sound financial standings taking into account the portfolio quality. For this purpose, the group adopts a prudent financing policy to realize optimal returns with minimal risks.

Due the nature of real estate business and its position among the active business sectors in Kuwait, Finance Group designed shari'a compliant credit solutions in line with the client's financial position and, now, we finance real estate trading activities.

We pay the most attention to the contracting sector, simply because of its role in realization of the State's ambitious development projects undertaken by the national companies. As a part in the community, we continue our role to aid such promising project by financing the future successful projects to take part in the State economic development.
We are now in the process to complete the 2nd phase of corporate online banking with the aim to provide our customers with the effective and secured banking services and information.

Banking Services Group

Boubyan Bank is keen to have an integrated environment equipped with the up-to-date techniques to provide a full range of banking services by a team of experts with a full understanding of the diversified needs of clients tailoring these accounts and services to best serve the interest of clients. We, now, have 14 branches in different areas in the country and one branch for private banking services. Boubyan Bank continues its story of success to open new branches in the other area across the country, some of which shall be allocated for ladies. Boubyan also strives to implement the "one stop shopping"concept. The products and services offered by Banking Services Group are diversified to include current account, salary account, saving account, Wakala investment deposit, SMS services, online banking, etc.

Boubyan Bank is the first Kuwaiti bank investing the entire balance of the investment deposit for periods from only one month to give returns thereon by means of Absolute Investment Wakala Contracts with the bank, whereby the bank invests the funds of the client's investment deposit in well studied and shari'a complaint investment deals.

The bank seeks to visualize its vision by launching the various developed and innovative products in line with shari'a principles to meet the customers' requirements, allocating the resources qualified and trained to realize customer's needs and continuously implementing the up-to-date techniques to ensure the best services to the bank's customers.

During the reporting period, the bank has successfully launched its banking services through its bilingual website www.bankboubyan.com, along with Boubyan Tele-banking Services.

Banking Services Group relies heavily on its Card Department to make the bank's brand available to all consumers through VISA Boubyan, Boubyan Gift Cards and Boubyan Prepaid Internet Cards. The most remarkable product of the period was Boubyan Smart Cards, which are designed to protect that card holder from any fraud.

Financial Group

Financial Group «FG» has successfully established a team of qualified professional calibers with desired human synergy mix that is capable of effectively and efficiently running its functions and activities. The Group managed to align financial operations with the bank goals and objectives by delivering a centralized repository of strategic information.

During the reporting period, FG issued three successive annual financial information sets that include the Bank consolidated Financial Statements and other supplementary information with great emphasis, inter alias, on transparency that enhanced the Bank's credibility before the external auditors and the state regulatory authorities.

In a short span of time, FG has played a significant role in supporting banking system modules accounting mapping and setups and development of Profit calculation, Transfer pricing, Islamic calculator and Financial Templates Reporting, which covers CBK reporting and other forms of internal reporting to senior Management and Boar of Directors.
Moreover, FG provided comprehensive financial management solutions to enhance financial control, data analysis, and financial reporting by developing an entity wide annual financial plan as an effective tool of implementing the Bank overall Strategy, building an integrated financial business flow to track the performance of key managements' objectives, and benchmark the bank performance internally using historical data and externally using financial ratio.
To ensure the effective performance, FG developed and maintained updated accounting manuals and policies and procedures manuals for all functions, being intact with all latest banking industry pronouncements, Islamic shari'a and accounting standards and the

International Financial Reporting Standards. FG pays its most attention to train their staff and develop their skills by keeping them abreast with the most recent changes and revisions to the International Financial Reporting Standards.

Human Resources Group

Human Resources Group «HRG» of Boubyan Bank plays a central role to select and recruit the qualified and experienced personnel, and set up the rules for excellent performance and customer services.
HRG has successfully filled the vacant position in the bank with cadres holding the required qualifications and experiences taking into account Kuwaiti Workforce, which accounts for 51%.

Over the period, HRG conducted various orientation sessions in addition to training programs to develop skills of Middle Management to be opened during the 1st quarter of 2008. HRG Training Center strives to enhance the staff performance through well-organized trainings with the aim to accommodate all the bank's requirements.
Overall, the bank's culture urges all staff to obtain the professional qualifications by organizing the specialized training courses with the aim to direct the staff towards the ultimate target, which is the bank growth by developing its employees.

To this end, ITQAN Academy has been established within HRG in order to maintain a professional and unique environment that focuses on creating a cadre of qualified and well-trained staff that assist the bank to, on one hand, reach high quality and excellence in all what it provides as a major Islamic financial institution and, on the other hand, to ensure its staff loyalty towards the bank.
HRG acts as a strategic partner to improve the bank's performance and promote the positive attitude of its staff in addition to the absolute transparency across the bank.

Information Technology Group

The primary objective of Information Technology «IT» Group during the period from 2005 through 2007 was to implement IT solutions to support the Bank's business requirements. To this effect, IT Group has developed the IT Strategic Plan approved by the IT Steering Committee headed by the C&MD. The systems and solutions implemented include iMal Core Banking system, IT Solutions for Retail banking, Investment, Treasury, Accounting, Assets, Retail Finance, Corporate Finance, Online Banking, back office applications, etc.
In order to protect customers and the Bank's digital assets, IT Group has implemented various security control measures. Moreover, the complete IT infrastructure was subjected to an external audit for security vulnerabilities and recommendations were implemented.

The Bank has a fully tested Disaster/Recovery site around 20 km away from the primary site. All the live computer systems are duplicated at the DR site. The data from the primary site is replicated in real-time to the DR site. In addition to supporting various business and technical requirements of the Bank, the IT Group has developed various policies and procedures as per international standards. IT Group has successfully provided Boubyan Bank with one of the best IT environments developed in line with the International Standards and Best Practices.

Internal Control & Corporate Governance

During the period, the bank has successfully set up sound internal control systems and corporate governance through the following independent departments, which are directly reporting to the Chairman & Managing Director:

o Internal Audit,
o Compliance and Anti-money Laundering,
o Risk Management,
o Legal Affairs, and
o Shari'a Supervision.

Internal Audit

The internal audit function is the core of each control and corporate governance system. The internal audit function reports directly to the BOD Audit Committee. Boubyan's Internal Audit Function encompasses of highly-qualified, well-experienced and a competent executive and staff. During the period, the Internal Audit Department has successfully completed reviews of policies and procedures of the bank's various areas to ensure their compliance with the relevant approved policies and procedures. Based on the results of a comprehensive and scientific risk assessment approach for all of the bank's areas, functions and operations, annual internal audit plans were prepared and approved by the audit committee to evaluate and improve the effectiveness of risk management, control, and governance processes. In addition, Internal Audit Department provides independent appraisal, analysis, recommendations, counsel and information concerning the adequacy and effectiveness of the bank's internal control structure; promotes effective internal controls at a reasonable cost; identifies weaknesses in controls, reporting them to management and making recommendations for improvements; and ensures that recommendations are implemented in an effective and timely manner.

Compliance & Anti-money Laundering

In compliance with the directives of the Central Bank of Kuwait "CBK" and the other state regulatory and supervisory bodies, Compliance & Anti-money Laundering Department acts as a central coordinator for the Bank in respect to all matters relating to CBK regulatory reporting, capital markets regulations and other requirements. The functions also cover the broad areas of corporate governance, adherence to best practices, code of conduct, conflict of interest, etc. During the period, the department has successfully implemented a comprehensive plan to ensure compliance with the local regulations and instructions for combating money laundering and reporting suspicious operations and the best application of the related training policy.

Compliance & Anti-money Laundering Department is keen to train the new recruits, through focused training session, to gain skills on combating money laundering activities, identify the suspicious activity and report the same to the Compliance & Anti-money Laundering Manager in order to protect the bank, shareholders and the national economy from any attempt to destroy the financial system.

Compliance Department has direct channels of communication with the bank's senior management and, externally, with the supervisory and regulatory authorities.

Risk Management

During the period, the risk management department was curved and three main branches were formed, namely: Credit Risk, Market Risk and Operational Risk. Risk Management is pivotal for the sound and profitable financial services for any financial institutions worldwide. In a short span, credit risk function of Risk Management Department has placed various measures and control for risk mitigation of the business activity exposed to credit risk. One of the measures was starting risk review of the financing proposals of the different business groups comprising corporate banking, Treasury and Investments. The Bank is having approved Financing Policy (by the Board) and Financing Committee Charter.

Market risk function of the Risk Management department has initiated various measures and control to mitigate market risk. The Bank has set Asset & Liability Management (ALM) policy with an active ALM Committee, Chaired by the Chairman & Managing Director. The ALCO strives for the comprehensive strategic management of asset and liabilities on our balance sheet. Primarily, all the factors affecting liquidity management and it's compliance with the prescribed regulatory norms is monitored regularly and independently. In order to manage the market risk more effectively, a process of middle office establishment at the bank wide particularly covering three main groups (Treasury, Investments and Corporate banking) of the bank have been initiated.

Avoiding Operational Risk is one of key goal of the Bank. A full fledge Operational Risk function under Risk Management is schedule to function in the beginning of the first quarter of 2007; bank had already taken the necessary steps for the same. Currently Risk Management Department evaluates all the IT systems of the Bank from Operational risk perspective. A standard matrix has been developed to evaluate IT projects. Once the full fledge Operational risk function is established, Bank will implement Operational Risk policy and control and implement bank wide "business continuity and recovery plan (BCRP)".

The Bank has a plan to establish efficient system for monitoring total volume of risk and amount of capital allocated to each business Group. The Bank has specific objectives to maintain a high standard of Islamic shari'a guidelines, corporate governance, regulatory reporting and high standard of market discipline. The Bank aims also to implement Basel II approach (as per IFSB) for capital calculations in future.

Legal

During the last year of the period, Boubyan Bank has successfully gathered long-experienced legal advisors with a remarkable track record in banking business and the related sectors. Legal Department achieved beyond expectations to accommodate all the bank's requirements in terms of review of all legal contracts and agreement with counterparties in tight coordination with Shari'a Supervisory Department and the external legal firms.

Shari'a Supervision

Shari'a Supervision Department of Boubyan Bank is managed by eminent qualified scholars to review and examine all of the bank's transactions and ensure that they are compliant with the rules and principles of Islamic Shari'a. During the reporting period, Shari'a Supervision Department perused and fine-tuned all the bank's contracts and forms to be in line with Shari'a context.

In addition, Shari'a Supervision Department conducts a regular audit on all of the bank's business to review the contracts and agreement concluded between the bank and the local and international entities. The department also undertakes training the bank staff on shari'a matters and enriches their knowledge with the recent information and developments of the modern Islamic transactions.

Future Plans

By all market measures, we exceeded all expectations and our financial position amply stands for excellent performance. On one hand, the optimistic observers were expecting limited development and presence and, on the other hand, prudent and well-studied strategies were being developed to build a major financial entity. We do not believe that maintaining success is more difficult than achieving it, but moving from a success to another requires hard work and persistence for the proper implementation of the well-established plans and careful studies. Hence, the Executive Management has based its future plans for the coming period on two main aspects; local and foreign expansions, which shall have the same priority.

On the local expansion and the proposed development, the Bank's Management will make use of the current national economic prosperity and the boom of the Islamic banking industry through launching innovative Shari'a-compliant products and services that meet the needs and requirements of individuals who represent the major part of the local market. The Bank will also make use of the increased net worth of creditworthy individuals through providing wealth management services and high quality, cost-effective local and international services. The Bank will also give due care to expand its branch network to cover all areas throughout the State of Kuwait through increasing the number of branches so that Boubyan services will be accessible by all segments of consumers.

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May Almighty Allah bless our deeds.

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

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad, his folk, Companions and Followers to the Day of Judgment

The Fatwa & Shari'a Supervisory Board in Boubyan Bank has reviewed and amended all the Bank's contracts and transactions presented to it by the Bank management to ensure their conformity with the Principles of Islamic Shari'a.

The Board has also responded to all questions and inquiries related to the Bank's business and operations.

Based on the report presented to this Board by the Shari'a Supervisor in the Bank, and also on what the Board perceived from the presented documentations, Fatwa & Shari'a Supervisory Board hereby testifies that Boubyan Bank's operations and transactions for the financial year ended 31.12.2007 are all in compliance with the Islamic Shari'a and we found nothing that might lead us to believe that these are not in accordance with the Islamic Shari'a.

We invoke the Almighty ALLAH to lead the Bank management and staff towards integrity, correctness, and more success.
Peace be upon our Prophet Mohammad and his Kins and Companions All,

Sheikh Ahmad Bezea Al-Yaseen
Chairman

Sheikh Dr Ajeel J. Al-Nashmi
Vice Chairman

Sheikh Dr. Mohammed A. Al-Tabtabae
Member

Sheikh Dr Saud M. Al-Rabea
Member

Sheikh Dr Esam K. Al-Anezi
Member

بوبيان
صندوق بوبيان المالي
BOUBYAN FINANCIAL FUND

BLME
BANK OF LONDON AND THE MIDDLE EAST

بوبيان للتأمين التكافلي
Boubyan Takaful Insurance

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2007

BOUBYAN CAPITAL

BANK MUAMALAT
Pertama Murni Syariah

al ijarah
Sharia Finance

صندوق بوبيان للعقار العالمي
Boubyan Global Real Estate Fund

صندوق بوبيان
للصكوك العقارية

بوبيان
BOUBYAN FINANCIAL FUND USD
صندوق بوبيان المالي بالدولار الأمريكي

Contents

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Fax : + 965 249 2704

INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Boubyan Bank K.S.C. ("the Bank") and subsidiaries (collectively "the Group") which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and the consolidated 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

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and 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 accounts have been kept by the Bank and the consolidated financial statements together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all the information that is required by the Kuwait Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association; that an inventory count was duly carried out; and that, to the best of our knowledge and belief, no violations of the Kuwait Commercial Companies Law of 1960, as amended, or of the Articles of Association of the bank have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2007.

Jassim Ahmad Al-Fahad
License No. 53-A
Al-Fahad & Co. Deloitte & Touche

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

14 January 2008
Kuwait

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

	Notes	31 December 2007 KD`000	31 December 2006 KD`000
Income			
Murabaha and other Islamic financing income		32,508	21,994
Investment income	5	6,826	3,361
Fees and commissions income	6	9,414	6,465
Share of results of associates	16	4,478	927
Net foreign exchange gain		1,003	414
Other income		66	56
Operating income		54,295	33,217
Expenses			
Staff costs		9,771	5,797
General and administrative expenses		4,126	2,873
Depreciation and amortization		740	327
Operating expenses		14,637	8,997
Operating profit before murabaha cost, provision for impairment and distribution to depositors		39,658	24,220
Murabaha cost		5,214	3,413
Provision for impairment - general	8	1,176	2,080
Operating profit before distribution to depositors		33,268	18,727
Distribution to depositors	7	13,857	7,936
Operating profit		19,411	10,791
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		173	96
National Labour Support Tax ("NLST") and Zakat		498	265
Directors' fees		108	116
Net profit for the year		18,632	10,314
Attributable to:			
Equity holders of the Parent		18,562	10,259
Minority interest		70	55
		18,632	10,314
Earnings per share attributable to the equity holders of the Parent (fils)	9	17.52	9.68

The notes set out on pages 38 to 73 form an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	Notes	2007 KD`000	2006 KD`000
Assets			
Cash and cash equivalents	10	49,032	22,947
Short term Murabaha and other Islamic financing	11	307,040	277,344
Receivables	12	197,703	115,698
Leased assets	13	67,389	7,781
Financial assets held at fair value through profit or loss		9,702	1,020
Available for sale investments	14	56,258	30,710
Investment in unconsolidated subsidiary	15	-	1,133
Investments in associates	16	25,306	9,080
Trading properties		2,733	2,885
Investment properties	17	18,960	13,508
Other assets	18	7,421	18,624
Property and equipment		4,384	3,609
Total assets		745,928	504,339
Liabilities and Equity			
Liabilities			
Due to banks	19	287,508	111,429
Depositors' accounts	20	307,459	264,328
Other liabilities	21	11,471	8,172
Total liabilities		606,438	383,929
Equity			
Share capital	22	105,937	99,941
Share premium	23	280	280
Statutory reserve	24	3,709	1,727
Voluntary reserve	25	3,406	1,550
Fair value reserve		2,201	909
Foreign currency translation reserve		(733)	109
Retained earnings		22,387	13,659
Equity attributable to equity holders of the parent		137,187	118,175
Minority interest		2,303	2,235
Total equity		139,490	120,410
Total liabilities and equity		745,928	504,339

The notes set out on pages 38 to 73 form an integral part of these consolidated financial statements

Yacob Y. Al-Muzaini
Chairman & Managing Director

بنك بوبيان
BOUBYAN BANK
إهتمامنا... سر تميّزنا

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 December2005	99,941	280	701	701	-	(158)	5,452	106,917	-	106,917
Unrealized gain on available for sale investments	-	-	-	-	909	-	-	909	-	909
Foreign currency translation adjustments	-	-	-	-	-	267	-	267	-	267
Net gain recognized directly in equity	-	-	-	-	909	267	-	1,176	-	1,176
Net profit for the year	-	-	-	-	-	-	10,259	10,259	55	10,314
Total recognized income and expense for the year	-	-	-	-	909	267	10,259	11,435	55	11,490
Zakat	-	-	-	(177)	-	-	-	(177)	-	(177)
Transfer to reserves	-	-	1,026	1,026	-	-	(2,052)	-	-	-
Net movement in minority interest	-	-	-	-	-	-	-	-	2,180	2,180
Balance at 31 December2006	99,941	280	1,727	1,550	909	109	13,659	118,175	2,235	120,410
Unrealized gain on available for sale investments	-	-	-	-	1,292	-	-	1,292	-	1,292
Foreign currency translation adjustments	-	-	-	-	-	(842)	-	(842)	-	(842)
Net gain (loss) recognized directly in equity	-	-	-	-	1,292	(842)	-	450	-	450
Net profit for the year	-	-	-	-	-	-	18,562	18,562	70	18,632
Total recognized income and expense for the year	-	-	-	-	1,292	(842)	18,562	19,012	70	19,082
Issue of bonus shares	5,996	-	-	-	-	-	(5,996)	-	-	-
Transfer to reserves for the year	-	-	1,934	1,856	-	-	(3,790)	-	-	-
Transfer to reserve - difference related to 2006	-	-	48	-	-	-	(48)	-	-	-
Net movement in minority interest	-	-	-	-	-	-	-	-	(2)	(2)
Balance at 31 December2007	105,937	280	3,709	3,406	2,201	(733)	22,387	137,187	2,303	139,490

The notes set out on pages 38 to 73 form an integral part of these consolidated financial statements

BOUBYAN BANK

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

	Notes	31 December 2007 KD`000	31 December 2006 KD`000
OPERATING ACTIVITIES			
Net profit for the year		18,632	10,314
Adjustments for :			
Provision for impairment – general	8	1,176	2,080
Depreciation and amortization		740	327
Foreign currency translation		2,093	(571)
Gain from sale of associate		(452)	-
Gain from sale of available for sale investments		(217)	(236)
Unrealized gain from financial assets held at fair value through profit or loss		(955)	-
Share of results of associates		(4,478)	(927)
Dividend income		(1,706)	(152)
		14,833	10,835
Changes in operating assets and liabilities:			
Increase in short term Murabaha and other Islamic financing		(29,272)	(109,492)
Increase in receivables		(82,729)	(58,291)
Increase in leased assets		(60,502)	(6,146)
Decrease in trading properties		152	321
Decrease in other assets		11,203	13,732
Increase in due to banks		176,079	3,290
Increase in depositors' accounts		43,131	173,095
Increase/(decrease) in other liabilities		3,318	(14,962)
Dividend income received		1,706	152
Net cash from operating activities		77,919	12,534
investing activities			
Purchase of available for sale investments		(40,071)	(15,594)
Purchase of financial assets held at fair value through profit or loss		(1,018)	(1,020)
Proceeds from sale of available for sale investments		11,422	12,096
Purchase of investments in associates		(16,083)	-
Dividends from associates		806	504
Purchase of investment properties		(7,893)	(24,639)
Proceeds from sale of investment properties		2,520	11,702
Purchase of investment in unconsolidated subsidiary		-	(1,090)
Purchase of property and equipment		(1,515)	(1,700)
Net cash used in investing activities		(51,832)	(19,741)
Net change in minority interest		(2)	2,180
Net increase / (decrease) in cash and cash equivalents		26,085	(5,027)
Cash and cash equivalents at the beginning of the year		22,947	27,974
Cash and cash equivalents at the end of the year	10	49,032	22,947

The notes set out on pages 38 to 73 form an integral part of these consolidated financial statements

BOUBYAN BANK

1. INCORPORATION AND ACTIVITIES

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

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

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

The consolidated financial statements were authorised for issue by the Board of Directors on 14 January 2008.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 "Financial Instruments - Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments, associated risks and management of capital (see note 30).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2 Share-based Payment; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

• IAS 23 Borrowing Costs (Revised)	Effective for annual periods beginning on or after 1 January 2009
• IAS 1 Presentation of Financial Statements (Revised)	Effective for annual periods beginning on or after 1 January 2009
• IFRS 8 Operating Segments	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 11 IFRS 2: Group and Treasury Share Transactions	Effective for annual periods beginning on or after 1 March 2007
• IFRIC 12 Service Concession Arrangements	Effective for annual periods beginning on or after 1 January 2008

2. ADOPTION OF NEW AND REVISED STANDARDS (Continued)

Standards and Interpretations in issue not yet effective (continued)

• IFRIC 13 Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction	Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations once become effective in future periods will not have a material financial impact on the consolidated financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

The accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, except for changes resulting from amendments to IFRSs as mentioned in note 2.

Accounting convention

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), which are controlled by the Bank (collectively "the Group") as mentioned in note 15 . Control is achieved when the Bank has the power to govern the financial and operating policies of a subsidiary company so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (continued)

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Short term Murabaha and other Islamic financing

Short term Murabaha and other Islamic financing are financial assets originated by the Group and represent Murabaha, Wakala and Qard Hassan deals with banks and financial institutions with residual maturity of up to three months from the balance sheet date. These are stated at amortized cost.

Qard Hasan

Qard Hasan is a non-profit bearing financing intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the Qard Hasan period.

Receivables

Murabaha

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

Wakala

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables (continued)

Salam and Parallel Salam

Salam is an agreement whereby the Group (Al-Musalam) buys from a customer (Al-Musalam ileih) a commodity or asset (Al-Musalam fih) for deferred delivery in exchange for immediate payment (Ras-almal), according to specified condition. Parallel Salam is an agreement whereby the Group (Al-Musalam ileih) depends, for executing his obligation, on receiving what is due to him, in his capacity as Al-Musalam, from a sale in previous Salam contract, without making the execution of the second Salam contract dependent on the execution of the first one.
Salam receivables are financial assets originated by the Group stated at amortized cost net of provision for impairment.

Investments

Investments are recognised and derecognised on settlement date. Investments are classified into the following categories:
- Financial assets held at fair value through profit or loss
- Available for sale investments.

Financial assets held at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.
A financial asset is classified as held for trading if:
- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis.

Financial assets at FVTPL are measured initially at cost, which is the fair value of the consideration given. After initial recognition, the Group measures these assets at their fair values, without any deduction for transaction costs it may incur on sale or other disposal thereof with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or profit earned on the financial asset.

Available for sale investments

Available for sale investments are non-derivative investments that are not designated as another category of financial assets.
Investments are initially measured at cost, which is the fair value of the consideration given, plus directly attributable transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and settlement date accounting

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

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the 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.
Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Investments in associates

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

The results of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's share of ownership in that associate (which includes any long-term share of ownership that, in substance, form part of the Group's net investment in the associate) are not recognized.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated income statement.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets

The Group as a lessor

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

Operating leases

Operating lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense on a straight-line basis; whereas any initial leasing fees paid as a premium to the lessor are deferred and amortized over the life of the lease.

Impairment and uncollectability 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 financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

- for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
- for assets carried at fair value, impairment is the difference between cost and fair value; and
- for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions, is made.

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

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due to banks and depositors' accounts

Investment accounts

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

Non-investment accounts

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

Murabaha payable

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

End of service benefits

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

Provisions

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

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

Fair values

Investments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values (continued)

Available for sale investments with no reliable measures of their fair values or for which fair value information could not be obtained are carried at their initial cost less impairment losses, if any.

Other financial assets and liabilities

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

Investment properties

Fair values of the properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

Revenue recognition

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

Cash and cash equivalents

Cash includes cash in hand and cash at banks, both in local and foreign currencies. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Contingent liabilities and contingent assets

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

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

Hedge Accounting

The group hedges net investments in foreign operations. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is disposed off.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (continued)

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Kuwaiti Dinars ("KD"), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.
Foreign currency transactions are recorded in the functional currency at the prevailing rate of exchange prevailing at the date of the transaction.

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

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

Segment reporting

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

Fiduciary assets

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.
The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.
Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment as follows:

Asset category	Useful life in years
Furniture	5
Leasehold improvement	5
Office equipment	3
Tools	5

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

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

Intangible assets

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

Investment properties

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

Trading properties

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments

Management has to decide on acquisition of an investment whether it should be classified as held to maturity, available for sale or financial assets held at fair value through profit or loss.

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

Impairment of investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

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.

Key sources of 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 irregular finance facilities (if any) 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 based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially having the same 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 provision for impairment.

5. INVESTMENT INCOME

	2007	2006
	KD`000	KD`000
Unrealized gain on money market funds	1,167	902
Realized gain on money market funds	21	282
Sukuk Coupon income	1,330	858
Net rental income from investment properties	978	931
Gain from sale of associate	452	-
Unrealized gain from changes in fair value of financial assets held at fair value through profit or loss	955	-
Gain from sale of available for sale investments	217	236
Dividend income	1,706	152
	6,826	3,361

5. INVESTMENT INCOME (Continued)

Investment income earned on financial and non-financial assets, analyzed by category of asset, is as follows:

	2007	2006
	KD`000	KD`000
Income from available for sale investments	3,253	1,246
Income from financial assets held at fair value through profit or loss	2,143	1,184
Gain from sale of associate	452	-
Investment income earned on financial assets	5,848	2,430
Investment income earned on non-financial assets	978	931
	6,826	3,361

6. FEES AND COMMISSIONS INCOME

	2007	2006
	KD`000	KD`000
Retail banking customer fees	195	42
Investment banking fees	6,251	4,944
Asset management fees	1,743	519
Trade service fees	373	526
Other	852	434
	9,414	6,465

Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers (See note 32).

7. DISTRIBUTION TO DEPOSITORS

The Bank invests all of its investment deposits and saving accounts, adjusted for reserve requirements and the Bank's liquidity requirements.
Distribution of profits to depositors is calculated according to the Bank's standard procedures approved by the Bank's Sharia'a Supervisory Board as follows:

	2007	2006
	KD`000	KD`000
Investment deposits	12,337	7,614
Saving accounts	1,520	322
	13,857	7,936

8. PROVISION FOR IMPAIRMENT – GENERAL

	2007	2006
	KD`000	KD`000
Provision for impairment of short term Murabaha and other Islamic financing	(425)	360
Provision for impairment of receivables	724	785
Provision for impairment of leased assets	894	159
Provision on non-cash facilities	(17)	776
	1,176	2,080

8. PROVISION FOR IMPAIRMENT – GENERAL (Continued)

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

	Specific	General	Total
	KD'000	KD'000	KD'000
Balance at 31 December 2006	-	3,786	3,786
Provided during the year	-	1,176	1,176
Balance at 31 December 2007	-	4,962	4,962

At 31 December 2007, non-performing finance facilities amounted to KD Nil (31 December 2006: KD Nil).

The analysis of specific and general provision stated above is based on Central Bank of Kuwait requirements. In accordance with the Central Bank of Kuwait guidelines, a general provision of 1% has been provided on all cash facilities and 0.5% for the non-cash facilities not subject to specific provision, net of certain collaterals.
The collective impairment provision computed in accordance with IAS 39 for the years ended 31 December 2007 and 31 December 2006 amounted to KD Nil.

9. EARNINGS PER SHARE

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2007	2006
	KD`000	KD`000
Net profit for the year attributable to the equity holders of the parent(KD'000)	18,562	10,259
Weighted average number of shares outstanding during the year (thousands of shares)	1,059,375	1,059,375
Earnings per share attributable to the equity holders of the parent (fils)	17.52	9.68

The weighted average number of shares outstanding at 31 December 2006 and accordingly earnings per share for the year ended 31 December 2006 have been adjusted to reflect the bonus issue during the year (note 22)

10. CASH AND CASH EQUIVALENTS

	2007	2006
	KD`000	KD`000
Cash on hand	4,770	1,811
Balances with Central Bank of Kuwait	26,032	89
Balances with banks – current accounts	1,061	344
Cash on hand and balances with banks	31,863	2,244
Short term funds	17,169	20,703
	49,032	22,947

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

11. SHORT TERM MURABAHA AND OTHER ISLAMIC FINANCING

The distribution of short term Murabaha and other Islamic financing is as follows:

	2007	2006
	KD`000	KD`000
Industry sector		
Banks	275,830	232,153
Financial institutions	31,969	46,630
Less: deferred profit	(262)	(517)
	307,537	278,266
Less: provision for impairment	(497)	(922)
	307,040	277,344

The Group maintains international and local short term Murabaha and other Islamic financing under Murabaha, Wakala and Qard Hasan agreements of 3 months or less maturity from the balance sheet date.

Murabaha and other Islamic financing with banks and financial institutions (Islamic and conventional) are utilized in the purchase and sale of commodities, as trading is conducted by those institutions on behalf of the Group. The discretion of the conventional institutions over buying and selling is limited by the terms of the agreements between the Group and the conventional institutions.

	2007	2006
	KD`000	KD`000
Geographic region		
Kuwait and The Middle East	306,017	268,815
Western Europe	1,520	8,535
Other	-	916
	307,537	278,266
Less: provision for impairment	(497)	(922)
	307,040	277,344

General provision for impairment belongs to financial institutions and is calculated based on Central Bank of Kuwait instructions on the outstanding balance net of the deferred profits (if any) as follows:

	2007	2006
	KD`000	KD`000
Balance at beginning of the year	922	562
Provided during the year	(425)	360
Balance at end of the year	497	922

The fair values of Murabaha and other Islamic financing do not differ significantly from their respective book values.

12. RECEIVABLES

Receivables principally comprise Murabaha and Wakala balances and are stated net of provision for impairment. The distribution of receivables is as follows:

	2007	2006
	KD`000	KD`000
Industry sector		
Banks	14,613	11,096
Financial institutions	51,243	43,950
Construction and real estate	53,266	26,809
Trading and manufacturing	35,749	22,072
Other	50,796	18,028
Less: deferred profit	(5,311)	(4,328)
	200,356	117,627
Less: provision for impairment	(2,653)	(1,929)
	197,703	115,698

	2007	2006
	KD`000	KD`000
Geographic region		
Kuwait and The Middle East	183,314	109,009
Western Europe	10,766	7,585
Other	6,276	1,033
	200,356	117,627
Less: provision for impairment	(2,653)	(1,929)
	197,703	115,698

General provision for impairment is calculated based on Central Bank of Kuwait instructions on the outstanding balance net of deferred profits (if any) as follows:

	2007	2006
	KD`000	KD`000
Balance at beginning of the year	1,929	1,144
Provided during the year	724	785
Balance at end of the year	2,653	1,929
Financial institutions	670	873
Other	1,983	1,056
	2,653	1,929

Whenever necessary, receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Receivables from banks and financial institutions comprise mainly transactions with acceptable credit quality institutions.
The fair values of receivables do not differ significantly from their respective book values.

13. LEASED ASSETS

The net investment in leased assets comprises the following:

	2007	2006
	KD`000	KD`000
Gross investment	72,254	8,954
Less: unearned revenue	(3,812)	(1,014)
	68,442	7,940
Less: provision for impairment	(1,053)	(159)
	67,389	7,781

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

	2007	2006
	KD`000	KD`000
Within one year	65,273	5,771
One to five years	2,623	190
After five years	546	1,979
	68,442	7,940

The unguaranteed residual value of the leased assets at 31 December 2007 is estimated at KD Nil (2006: KD Nil).
The fair values of the leased assets do not significantly differ from their respective book values.

14. AVAILABLE FOR SALE INVESTMENTS

	2007	2006
	KD`000	KD`000
Investment in Sukuk	36,118	12,330
Investment in unquoted securities	10,882	10,018
Investment in unquoted funds	9,258	8,362
	56,258	30,710
Investments carried at fair value	54,135	16,247
Investments carried at cost less impairment	2,123	14,463
	56,258	30,710

It was not possible to reliably measure the fair value of certain available for sale investments due to lack of reliable measure to determine the fair value of such investments. Accordingly, they are stated at cost less impairment losses, if any.

15.SUBSIDIARIES

During 2006, the Bank has established a wholly owned subsidiary in the United Kingdom under the name of House of London and the Middle East plc ("HLME") with a capital equivalent to KD 1,133 thousand whose proposed principal activities are to conduct Sharia'a compliant financial services activities. The name of HLME was changed on 5 July 2007 to Bank of London and the Middle East plc ("BLME"). The investment was not consolidated as at 31 December 2006 and stated at cost as the subsidiary did not start its operations until that date. During the year the Group's share in this subsidiary was diluted as a result of not fully subscribing in a capital increase, and hence BLME became an associate as detailed in note 16.

During 2006, the Bank has established Boubyan Takaful Insurance Company K.S.C. (Closed), a Kuwaiti Shareholding Company, with a 76.41% interest, to be engaged in Takaful insurance activities in accordance with Noble Islamic Sharia'a principles. Shares of 20% amounting to KD 1,000 thousand were classified under other assets as these shares have been committed to be subscribed by a strategic investor. On 4 January 2007, the agreement between the Bank and the strategic investor was finalized, whereby the Bank gives a promise to sell to the strategic investor the shares after three years of the incorporation date of the above-mentioned company. This agreement stipulates, *inter alia*, that all the related economic risks and rewards of such shares have been transferred to the investor effective 4 January 2007.

During the year, the Bank has established a fully owned subsidiary, Boubyan Capital Investment Company K.S.C. (closed), a Kuwaiti Shareholding Company engaged in investment activities in accordance with Noble Islamic Sharia'a principles.

Name of subsidiary	Country of incorporation	2007 proportion of ownership interest & voting power %	2006 proportion of ownership interest & voting power %	Principal activity
Bank of London & the Middle East PLC.	United Kingdom	-	100.00	Islamic Financial Services
Boubyan Takaful Insurance Co. KSC(Closed)	Kuwait	56.44	56.41	Takaful Insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	100.00	-	Islamic Investments

16. INVESTMENTS IN ASSOCIATES

The investments in associates comprise the following:

Name of associate	Country of incorporation	2007 proportion of ownership interest & voting power %	2006 proportion of ownership interest & voting power %	Principal activity
Bank Syariah Muamalat Indonesia Tbk	Indonesia	21.28	21.28	Islamic Commercial Banking
Al-Bilad Real Estate Co. KSC (Closed)	Kuwait	-	31.70	Real Estate
Bank of London & the Middle East PLC	United Kingdom	20.00	-	Islamic Wholesale banking
Ijarah Indonesia Finance Co.	Indonesia	33.30	-	Islamic Financing Services

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

On 23 April 2007, the Group disposed off its 31.7% shareholding equity in Al-Bilad Real Estate Company for a total consideration of KD 3,805 thousand and recognized a gain on sale from disposal of KD 452 thousand being the difference between the consideration received and the carrying amount of the investment.

Bank of London and the Middle East plc ("BLME") is a public limited company duly incorporated in the United Kingdom on 7 August 2006. BLME is licensed by the Financial Services Authority (FSA) to conduct wholesale banking activities in accordance with Sharia'a principles. As at 31 December 2006, investment in BLME was classified as an investment in unconsolidated subsidiary as the Group had 100% ownership in BLME. During the current year, BLME increased its share capital from GBP 2 million (equivalent to KD 1,133 thousand) to GBP 175 million (equivalent to KD 99,292 thousand), however the Group did not fully subscribe to this increase. As a result, the Group's interest in BLME was diluted to 20% and a gain of KD 3,664 thousand was recognized in the share of results of associates. The investment therefore is accounted for as an investment in associate.

Ijarah Indonesia Finance Company has been granted the license during 2007 from the relevant authorities in Indonesia to render financing services. The Group's investment in Ijarah Indonesia Finance Company equivalent to KD 1,015 thousand is stated at cost, as the associate has not commenced operations at the balance sheet date.

16. INVESTMENTS IN ASSOCIATES (Continued)

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

	2007	2006
	KD`000	KD`000
Balance at the beginning of the year	9,080	8,263
Acquisition of associates	17,216	-
Sale of associate	(3,353)	-
Share of results of associates	4,478	927
Dividends received	(806)	(504)
Foreign currency translation adjustments	(1,309)	394
	25,306	9,080

The Group's share of results of associates is recognised based on unaudited financial statements. The financial statements date of Bank Muamalat and Bank of London and The Middle East (BLME) PLC is 30 November 2007 which are the most recent available financial statements. The Group's share in the balances of its associates as at 31 December 2007 were as follows:

Name of the associate	Assets	Liabilities	Revenues	Results
	KD'000	KD'000	KD'000	KD'000
Bank Syariah Muamalat Indonesia Tbk	63,752	58,571	3,845	688
Al Bilad Real Estate Co.	-	-	-	115
Bank of London & the Middle East PLC	30,323	11,213	1,030	11
	94,075	69,784	4,875	814

The Group's share in the balances of its associates as at 31 December 2006 were as follows:

Name of the associate	Assets	Liabilities	Revenues	Results
	KD'000	KD'000	KD'000	KD'000
Al-Bilad Real Estate Co.	3,934	307	559	384
Bank Syariah Muamalat Indonesia Tbk	53,044	47,622	3,196	543
	56,978	47,929	3,755	927

The Group hedges part of the currency translation risk of net investment in BLME through currency borrowings. Borrowings amounting to KD19,110 thousand (31 December 2006: KD Nil) were designated as hedges instrument and gave rise to currency gain for the year of KD 655 thousand (31 December 2006: KD Nil), which have been deferred in the translation reserve component of equity. No ineffectiveness was recognized in consolidated income statement that arose from hedges of net investments in foreign operations. No amounts were withdrawn from equity during the year (31 December 2006: KD Nil), as there were no disposals of the related investment.

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2007	2006
	KD`000	KD`000
Balance at the beginning of the year	13,508	-
Purchases during the year	7,893	24,639
Sale during the year	(2,520)	(11,702)
Fair value and foreign currency transaction adjustments	79	571
	18,960	13,508

Investment properties comprise a number of commercial properties that are managed by third parties in Europe, United States and the Middle East.
Investment properties include properties with a carrying value of KD 8,956 thousand as at 31 December 2007 (2006: KD 10,093 thousand), which were acquired through a number of special purpose entities in Europe.

18. OTHER ASSETS

	2007	2006
	KD`000	KD`000
Due from Real Estate Sukuk Fund	-	13,182
Accrued income	1,979	2,851
Prepayments	1,484	1,061
Acceptance letters of credit	2,574	102
Software	1,170	316
Others	214	1,112
	7,421	18,624

19. DUE TO BANKS

	2007	2006
	KD`000	KD`000
Investment accounts	162,013	98,155
Non-investment accounts	125,495	13,274
	287,508	111,429

In accordance with Islamic Sharia'a, no profit is payable on non-investment accounts due to banks. The fair value of balances due to banks do not significantly differ from their respective book values.

20. DEPOSITORS' ACCOUNTS

	2007	2006
	KD`000	KD`000
Investment accounts	256,198	186,023
Non-investment accounts	51,261	78,305
	307,459	264,328

The fair values of the depositors' accounts do not significantly differ from their respective book values.

21. OTHER LIABILITIES

	2007	2006
	KD`000	KD`000
Creditors and accruals	505	274
Accrued staff benefits	4,151	915
Clearing accounts	2,200	1,372
General provision on non-cash facilities	759	776
Margin accounts	468	1,813
NLST and KFAS due	657	424
Other	2,731	2,598
	11,471	8,172

22. SHARE CAPITAL

	2007		2006	
	Shares	KD'000	Shares	KD'000
Authorized ordinary shares of par value100 fils	1,060,000,000	106,000	1,000,000,000	100,000
Fraction shares not issued	(625,051)	(63)	(589,670)	(59)
Shares issued and fully paid	1,059,374,949	105,937	999,410,330	99,941

The general assembly of the shareholders held on 7 April 2007 has approved bonus share dividends at 6% of the outstanding number of shares held by the shareholders registered in the Bank's records at the general assembly date.

23. SHARE PREMIUM

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

24. STATUTORY RESERVE

As required by the Commercial Companies Law and the Bank's Articles of Association 10% of profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Banks Articles of Association.

25. VOLUNTARY RESERVE

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

26. OPERATING LEASES

The Group has entered into several lease arrangements, mainly for renting buildings, offices and equipment. The total future minimum lease payments under the operating leases for each of the following periods is:

	2007	2006
	KD`000	KD`000
Not later than one year	1,822	1,303
After one year and not later than five years	4,606	3,234
	6,428	4,537

Such lease agreements are subject to automatic renewal unless one of the parties to that agreement notifies the other, with no purchase options or any escalation clauses.

27. RELATED PARTY TRANSACTIONS

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

	2007	2006
	KD`000	KD`000
Due from related parties:		
Short term Murabaha and other Islamic financing	11,094	871
Receivables	4,616	-
Other assets	-	13,182
Due to related parties:		
Due to banks	15,812	-
Depositors' accounts	62,696	28,414
Transactions with related parties:		
Letters of guarantee	15	66
Revenues	1,912	937
Expenses	3,979	1,220

Compensation of key management personnel:
Details of compensation for key management comprise the following:

	2007	2006
	KD`000	KD`000
Short-term benefits	3,123	806
Post-employment benefits	51	38
	3,174	844

During the year, the Parent sold investment properties to related parties at book value amounting to KD 2,520 thousand (2006: trading properties and investment properties of KD 289 thousand and KD 11,688 thousand respectively).

During the year the Parent sold to one of its subsidiaries an investment in associate, available for sale investments and financial assets held at fair value through profit or loss of KD 1,078 thousand, KD 6,698 thousand and KD 5,778 thousand respectively. These transactions have no impact on the consolidated income statement.

28. CONTINGENCIES AND COMMITMENTS

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

	2007	2006
	KD`000	KD`000
Guarantees	32,052	27,453
Acceptances and letters of credit	7,376	13,030
Investment commitments	1,690	22,796
Capital commitments (projects under construction)	1,075	670
Credit commitments	14,347	8,507
	56,540	72,456

29. SEGMENT REPORTING

a. Primary Segment - Business

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

Retail banking: Principally handling the deposits of individual customers and small businesses, and providing consumer type Murabaha and Islamic covered cards facilities.

Corporate banking: Principally handling Murabaha and Ijarah facilities for corporate and institutional customers.

Investment: Principally handling direct investments, and local and international real estate investment.

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

For the year ended 31 December 2007

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenues	580	9,535	14,834	29,134	212	54,295
Segment expenses	(5,275)	(1,487)	(605)	(18,265)	(10,031)	(35,663)
Segment results	(4,695)	8,048	14,229	10,869	(9,819)	18,632

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Assets						
Cash and cash equivalents	4,088	-	3,314	41,630	-	49,032
Short term Murabaha & other Islamic financing	-	-	-	307,040	-	307,040
Receivables	979	94,636	-	102,088	-	197,703
Leased assets	-	66,029	-	1,360	-	67,389
Financial assets held at fair value through profit or loss	-	-	9,702	-	-	9,702
Available for sale investments	-	-	20,140	36,118	-	56,258
Investments in associates	-	-	25,306	-	-	25,306
Trading properties	-	-	2,733	-	-	2,733
Investment properties	-	-	18,960	-	-	18,960
Other assets	485	2,486	1,300	1,092	2,058	7,421
Property & equipment	1,079	38	138	59	3,070	4,384
Total assets	6,631	163,189	81,593	489,387	5,128	745,928
Liabilities and Equity						
Due to banks	-	-	-	287,508	-	287,508
Depositors' accounts	129,156	-	-	178,303	-	307,459
Other liabilities	279	851	25	394	9,922	11,471
Equity	-	-	-	-	139,490	139,490
Total liabilities and equity	129,435	851	25	466,205	149,412	745,928

29.SEGMENT REPORTING (Continued)

For the year ended 31 December 2006

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Segment revenues	553	2,903	6,381	22,908	472	33,217
Segment expenses	(3,088)	(1,733)	(769)	(12,387)	(4,926)	(22,903)
Segment results	(2,535)	1,170	5,612	10,521	(4,454)	10,314

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Assets						
Cash and cash equivalents	1,811	-	4,110	17,026	-	22,947
Short term Murabaha & other Islamic financing	-	-	-	277,344	-	277,344
Receivables	-	78,896	-	36,802	-	115,698
Leased assets	-	7,781	-	-	-	7,781
Financial assets held at fair value through profit or loss	-	-	1,020	-	-	1,020
Available for sale investments	-	-	18,379	12,331	-	30,710
Investment in unconsolidated subsidiary	-	-	1,133	-	-	1,133
Investments in associates	-	-	9,080	-	-	9,080
Trading properties	-	-	2,885	-	-	2,885
Investment properties	-	-	13,508	-	-	13,508
Other assets	132	-	16,541	51	1,900	18,624
Property & equipment	524	44	51	37	2,953	3,609
Total assets	2,467	86,721	66,707	343,591	4,853	504,339
Liabilities and Equity						
Due to banks	-	-	-	111,429	-	111,429
Depositors' accounts	128,833	-	-	135,495	-	264,328
Other liabilities	1,937	596	2,262	177	3,200	8,172
Equity	-	-	-	-	120,410	120,410
Total liabilities and equity	130,770	596	2,262	247,101	123,610	504,339

29. SEGMENT REPORTING (Continued)

b. Secondary segment - Geographical

The Bank operates in various geographical sectors. The geographical analysis is as follows:

For the year ended 31 December 2007

	Assets	Liabilities & equity	Commitments & Contingencies
	2007 KD'000	2007 KD'000	2007 KD'000
Geographical area:			
Kuwait and the Middle East	677,454	719,440	56,285
North America	6,057	84	-
Western Europe	45,922	19,834	-
Other	16,495	6,570	255
	745,928	745,928	56,540

	Operating income	Operating profit
	2007 KD'000	2007 KD'000
Kuwait and the Middle East	41,444	8,986
North America	182	182
Western Europe	10,808	8,748
Other	1,861	1,495
	54,295	19,411

For the year ended 31 December 2006

	Assets	Liabilities & equity	Commitments & Contingencies
	2006 KD'000	2006 KD'000	2006 KD'000
Geographical area:			
Kuwait and the Middle East	461,616	491,725	51,635
North America	6,589	-	-
Western Europe	26,061	2,035	14,835
Other	10,073	10,579	5,986
	504,339	504,339	72,456

	Operating income	Operating profit
	2006 KD'000	2006 KD'000
Kuwait and the Middle East	27,308	4,936
North America	490	488
Western Europe	3,890	3,886
Other	1,529	1,481
	33,217	10,791

29.SEGMENT REPORTING (Continued)

Concentration of assets and liabilities

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

The distribution of assets by industry sector was as follows:

	2007	2006
	KD`000	KD`000
Trading and manufacturing	37,740	25,056
Banks and financial institutions	462,741	362,708
Construction and real estate	174,846	46,569
Other	70,601	70,006
	745,928	504,339

The distribution of liabilities by industry sector was as follows:

	2007	2006
	KD`000	KD`000
Trading and manufacturing	12,581	7,435
Banks and financial institutions	464,103	268,936
Construction and real estate	21,676	5,902
Other	108,078	101,656
	606,438	383,929

30.FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. To limit this risk, the Group deals with fairly good customers from corporates, financial institutions and high net worth individuals and has policies and procedures in place to limit the amount of credit exposure to any single and related counter party. These policies include the non-concentration of credit risk.

The Group minimizes other concentrations of credit risk by undertaking transactions with a large number of customers. All policies relating to credit are reviewed and approved by the Board of Directors.

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

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

	Notes	Gross maximum exposure 2007	Gross maximum exposure 2006
		KD`000	KD`000
Cash and cash equivalents (excluding cash on hand)	10	44,262	21,136
Short-term Murabaha and other Islamic financing	11	307,040	277,344
Receivables	12	197,703	115,698
Leased assets	13	67,389	7,781
Financial assets held at fair value through profit or loss		9,702	1,020
Available for sale investments	14	56,258	30,710
Other assets (excluding software)	18	6,251	18,308
		688,605	471,997
Contingent liabilities		39,428	40,483
Commitments		17,112	31,973
Total credit risk exposure		745,145	544,453

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.

For more details on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

Risk concentrations of the maximum exposure to credit risk

The Group manages concentration of risk by client/counterparty, geographical region and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2007 was KD 50,000 thousand (31 December 2006: KD 49,300 thousand) before taking account of collateral or other credit enhancements and KD 50,000 thousand (31 December 2006: KD 49,300 thousand) net of such protection.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (continued)

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

	2007			2006		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Kuwait & The Middle East	313,392	353,358	666,750	237,570	214,412	451,982
North America	108	-	108	344	289	633
Western Europe	1,689	10,603	12,292	8,535	7,434	15,969
Other	3,012	6,443	9,455	916	2,497	3,413
	318,201	370,404	688,605	247,365	224,632	471,997

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

	2007			2006		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Trading & manufacturing	-	37,740	37,740	-	22,594	22,594
Banks & financial institutions	318,201	119,233	437,434	247,365	139,877	387,242
Construction & real estate	-	153,161	153,161	-	35,920	35,920
Other	-	60,270	60,270	-	26,241	26,241
	318,201	370,404	688,605	247,365	224,632	471,997

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:
• Cash collaterals
• Bank Guarantees
• Income generating and non-income generating real estate
• Shares and other Islamic financial instruments

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (continued)

Credit quality per class of financial assets

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

31 December 2007

	Neither past due nor impaired		Past due or impaired	Total
	Banks	Non-banks		
	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	27,093	17,169	-	44,262
Short-term Murabaha and other Islamic financing	275,630	31,410	-	307,040
Receivables	14,492	183,211	-	197,703
Leased assets	-	67,389	-	67,389
Financial assets held at fair value through profit or loss	986	8,716	-	9,702
Available for sale investments	-	56,258	-	56,258
Other assets	-	6,251	-	6,251
	318,201	370,404	-	688,605

31 December 2006

	Neither past due nor impaired		Past due or impaired	Total
	Banks	Non-banks		
	KD'000	KD'000	KD'000	KD'000
Cash & cash equivalents	433	20,703	-	21,136
Short-term Murabaha & other Islamic financing	231,807	45,537	-	277,344
Receivables	10,786	104,912	-	115,698
Leased assets	-	7,781	-	7,781
Financial assets held at fair value through profit or loss	-	1,020	-	1,020
Available for sale investments	4,339	26,371	-	30,710
Other assets	-	18,308	-	18,308
	247,365	224,632	-	471,997

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group has a set of policies and procedures, which are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed to ensure compliance with policies and procedures and monitors operational risk as part of overall risk management activities.

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

Foreign currency risk

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

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

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

	2007		2006	
	Effect on operating profit	Effect on equity	Effect on operating profit	Effect on equity
	KD'000	KD'000	KD'000	KD'000
US Dollar	(133)	103	(639)	(397)
Sterling Pound	65	65	19	19
Euro	86	86	19	19
Indonesian Rupiah	-	310	-	276

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk

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

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

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

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

31 December 2007

	Up to three months	3 to 6 months	6 to 12 months	over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets					
Cash and cash equivalents	49,032	-	-	-	49,032
Short term Murabaha & other Islamic financing	307,040	-	-	-	307,040
Receivables	97,087	32,475	28,209	39,932	197,703
Leased assets	11,388	24,558	27,722	3,721	67,389
Financial assets held at fair value through profit or loss	-	-	-	9,702	9,702
Available for sale investments	36,118	-	-	20,140	56,258
Investments in associates	-	-	-	25,306	25,306
Trading properties	-	-	2,733	-	2,733
Investment properties	-	-	-	18,960	18,960
Other assets	4,767	-	-	2,654	7,421
Property and equipment	-	-	-	4,384	4,384
Total assets	505,432	57,033	58,664	124,799	745,928
Liabilities and Equity					
Due to banks	276,526	-	-	10,982	287,508
Depositors' accounts	273,285	31,857	2,275	42	307,459
Other liabilities	9,561	-	-	1,910	11,471
Equity	-	-	-	139,490	139,490
Total liabilities and equity	559,372	31,857	2,275	152,424	745,928

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk (continued)

31 December 2006

	Up to three months	3 to 6 months	6 to 12 months	over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets					
Cash and cash equivalents	22,947	-	-	-	22,947
Short term Murabaha & other Islamic financing	277,344	-	-	-	277,344
Receivables	37,259	50,192	16,247	12,000	115,698
Leased assets	-	-	5,656	2,125	7,781
Financial assets held at fair value through profit or loss	-	-	1,020	-	1,020
Available for sale investments	-	-	-	30,710	30,710
Investment in unconsolidated subsidiary	-	-	-	1,133	1,133
Investments in associates	-	-	-	9,080	9,080
Trading properties	-	-	2,885	-	2,885
Investment properties	-	-	-	13,508	13,508
Other assets	-	18,624	-	-	18,624
Property and equipment	-	-	-	3,609	3,609
Total assets	337,550	68,816	25,808	72,165	504,339
Liabilities and Equity					
Due to banks	99,088	4,833	7,508	-	111,429
Depositors' accounts	247,970	6,797	9,263	298	264,328
Other liabilities	6,137	-	2,035	-	8,172
Equity	-	-	-	120,410	120,410
Total liabilities & equity	353,195	11,630	18,806	120,708	504,339

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments approximate their fair values at 31 December due to the relatively short-term maturity of the instruments except that it was not possible to reliably measure the fair value of certain unquoted securities.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Capital management risk

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

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

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

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

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

	2007	2006
Tier 1 capital	KD`000	KD`000
Share capital	105,937	99,941
Share premium	280	280
Statutory reserve	3,709	1,727
Voluntary reserve	3,406	1,550
Retained earnings	22,387	13,659
Minority interests	2,303	2,235
	138,022	119,392
Tier 2 capital		
Fair value reserve	990	409
Foreign currency translation reserve	(733)	49
	257	458
Total regulatory capital	138,279	119,850
Risk-weighted assets	487,659	324,373
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	28%	37%
Total tier 1 capital expressed as a percentage of risk-weighted assets	28%	37%

31. FINANCIAL ASSETS AND LIABILITIES

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

31 December 2007

	Designated at fair value	Loans & receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	21,939	27,093	-	-	49,032
Short term Murabaha & other Islamic financing	-	307,040	-	-	307,040
Receivables	-	197,703	-	-	197,703
Leased assets	-	67,389	-	-	67,389
Financial assets held at fair value through profit or loss	9,702	-	-	-	9,702
Available for sale investments	-	-	56,258	-	56,258
	31,641	599,225	56,258	-	687,124
Due to banks	-	-	-	287,508	287,508
Depositors' accounts	-	-	-	307,459	307,459
	-	-	-	594,967	594,967
Income	2,143	32,508	3,253	-	37,904

31 December 2006

	Designated at fair value	Loans & receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	22,514	433	-	-	22,947
Short term Murabaha & other Islamic financing	-	277,344	-	-	277,344
Receivables	-	115,698	-	-	115,698
Leased assets	-	7,781	-	-	7,781
Financial assets held at fair value through profit or loss	1,020	-	-	-	1,020
Available for sale investments	-	-	30,710	-	30,710
	23,534	401,256	30,710	-	455,500
Due to banks	-	-	-	111,429	111,429
Depositors' accounts	-	-	-	264,328	264,328
	-	-	-	375,757	375,757
Income	1,184	21,994	1,246	-	24,424

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank amounted to KD 249,521 thousand (31 December 2006: KD 118,511 thousand).

33. PROPOSED DIVIDEND

The board of directors recommended distribution of bonus shares of 10% on outstanding shares as at 31 December 2007 (6% on the outstanding shares as at 31 December 2006). The proposed dividend, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the Bank's records as of the date of the general assembly meeting.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.