Annual Report 2008

بـنـك بـوبـيـان
Boubyan Bank

Boubyan Bank
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Contents

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

Board of Directors

Mohammed Yousef Al-Roumi	Chairman
Bader Mishari Al-Homaidhi	Vice Chairman
Nabil Ahmed Mohamed Ameen	Board Member
Faisal Abdulazeez Al Zamil	Board Member
Bader Khaled Al Bahar	Board Member
Hani Abdulazeez Hussain Alturkat	Board Member
Dr. Yousef Abdullah Al Awadhi	Board Member
Yousef Yassen Malallah	Board Member
Bader Ajeel Alajeel	Board Member

Fatwa & Shari’a Supervisory Board

Sheikh Ahmed Bezea Al-Yassen	Chairman
Sheikh Dr. Ajeel Jasim Al-Nashmi	Vice Chairman
Sheikh Dr. Esam Khalaf Al-Anezi	Member
Sheikh Dr. Mohammed Adbulrazaq Al-Tabtabae	Member
Sheikh Dr. Saud Mohammed Al-Rabea	Member

Executive Management

Yacob A. Al-Awadi	Acting, Chief Executive Officer
Yousef J. Al-Obaid	General Manager - Corporate Finance Group
Adel Abdullah Al Hammad	General Manager - Human Resources & Marketing Group
Ahmed Fayed Al-Gebali	Chief Financial Officer
Abdul Rahman Hamza	Cheif Audit Executive
Kurien Varghese	Head of IT Group
Subhi Faraj	Head of Consumer Banking Group

Performance Highlights – 2008

This report contains the facts and figures relating to performance of Boubyan Bank for the financial year ended 31 December 2008 in addition to the achievements of the bank, in general, and developments of the bank's groups/departments against the preset targets and the bank's strategic plans.

All people are now concerned about the impact of the global financial crisis on the world economy. This crisis really started to show its effects in 2007 due to the Subprime Mortgage Crises and then into 2008. Having brewed for a while, such impacts extended to GCC economies following the tough recession of oil prices. Although the effects of the global financial crisis are limited compared to other international banks, these effects are swelling. The global crisis indirectly affected project finance, either by local banks, which became more stringent, or the foreign bank, which reduced numerous credit lines. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. Real estate sector, of course, is not away from such circumstances, which led to lack of liquidity and slowdown of real estate development. Based on all these, we conclude that it is not only economic slowdown but a real economy recession led major firms and banks to collapse.

Performance Highlights – 2008

We, in Boubyan Bank, have been affected like any other bank in the region. However, we managed to maintain a sound position to address such conditions. On 31 December 2008, total assets amounted to KD 840 million compared to KD 746 million in 2007, i.e. a hike by 13%. As on the same date, Depositors' accounts amounted to KD 570 million against KD 307 million in 2007, i.e. a hike by 86%.

Total revenues reached KD 60 million compared to KD 54 million in 2007 with a growth rate of 10%.

The net profit of the bank, before additional prudent provisions of KD 17 million, increased by 3% over 2007 net profit to reach KD 19 million.

From a prudent perspective, such provisions have been taken against the current economic conditions allover the world to maintain our asset quality and provide for asset impairment resulting from any decline in investment values or to provide for delinquency of the bank's customers in repayment on due dates. Accordingly, the bank's net profit as per the International Financial Reporting Standards amounted to circa KD 2 million.

Moreover, the current tough economic conditions happened to force the bank management take such precautionary action to reinforce the bank's financial position in such circumstances. However, this would not affect the distributions to depositors, calculated and made on a fair basis and in line with shari'a approvals to avoid any high risks such deposits may expose to.

Strategy & Objectives

The bank management was keen to set a comprehensive strategy for the various groups and activities. This strategy sets out the vision, mission, strategic objectives, strategic initiatives, key performance indicators, financial projections, and risks for the bank as a whole and for each main business group and function.

Our vision describes the intent and direction of our bank. Our Mission explains our purpose and is augmented by our Scope of Business, Goals, and Strategies. Our Guiding Principles and Key Success Factors shape our values and resulting actions that are important in the conduct of our business. Collectively, they describe what we strive to accomplish.

The Strategic Plan is based on every Business Group carrying out a full assessment of their strategies and key initiatives, which have been reviewed with the top management. Based on this analysis and the bank Vision and Mission, Goals and Objectives have been developed. The bank overall business strategy has been reflected in the individual group strategy, human capital. The expected outcomes and assumptions of this strategy are also reflected in the projected financial statements.

Performance Highlights – 2008

Details of achievements at the group/department levels are enumerated below:

Investment Group

The investment group's ultimate responsibility is to allocate the bank's resources among high return investments with the lowest risk possible. After aggressively growing the investment portfolio between 2005 and 2007 by investing in sound and well diversified opportunities and assets globally, 2008 was a year of consolidation and monitoring ensuring that the portfolio performed well especially given the global financial crisis and economic downturn. We are proud to announce that most of the investments' values are fairly intact and have demonstrated good returns over the year.

Some of the notable direct investments that have performed well in 2008 were Bank Muamalat Indonesia (BMI) that has grown by over 134% since 2005. Bank of London and The Middle East (BLME), that was licensed by the Financial Services Authority (FSA) in 2007, has as planned, successfully raised an additional GBP75 million of capital making its total capital GBP250 million. BLME is performing well and meeting all its operational performance targets. Another notable investment is Al-Ijarah Indonesia Financing Company, that was established by the Bank in the first half of 2007 in collaboration with Bank Muamalat and ILIC of Kuwait, has been profitable and demonstrated a growth of over 16% during 2008.

The International Real Estate Department also performed well in 2008, especially considering the economical and real downturn trend that hit the real estate sector globally, as most of the investments did not lose their value. We have managed to service our financial obligations and maintain the quality and return of our investments in line with our strategy. Due to the unfavorable market conditions we didn't acquire or redeem any properties in our portfolios. Moreover, the Bank entered into a strategic partnership agreement with Societe Generale to provide Shari'a advice for developing of an innovative Shari'a compliant investment vehicle to invest in the EU real estate sector.

With the regional stock markets falling in the second half of 2008, we believe there are many value stocks/companies trading at attractive prices poised to give attractive returns over a medium term holding period. Therefore, the investment group initiated a small trading portfolio in the second half of 2008 by investing in value stocks listed on the Kuwaiti and Saudi stock markets with a view to hold them for a medium term.

Investment group Income was KD 10,962 thousand and net operating profit before provisions amounted to KD 4,810 thousand according to the internal policy for business group performance measurements.

Performance Highlights – 2008

Treasury Group

Structured Finance & Syndication Department
During the year, the Structured Finance & Syndication Department has further consolidated its previous gains to establish a formidable presence and a reliable reputation, thereby building-up a strong position in structured finance & syndication and Sukuk issuance markets as an arranger, underwriter and lead manager of praise-worthy and big-ticket Islamically structured transactions, with main focus on Kuwait and special emphasis in the other GCC countries.

The bank offers its Islamic banking expertise in structured finance & syndication transactions, leverages its fast-growing experience and leadership position in the application of Islamic structured products in various Sharia'a-compliant modes of financial instruments such as Murabaha, Mudaraba, Wakala, Ijara, Istisna'a and Sukuk, ranging from simple trade related deals to sophisticated project finance and complex Sukuk transactions.

A diverse network of relationships with institutional investors and the broad investor base of high net worth individuals, loyal to Boubyan Bank over the last three years, enhance the bank's distribution and placement capabilities, fund origination, fund management & administration and custody services skills to make it a key player in the Islamic banking & finance arena.

Correspondent Banking Department
Throughout the Financial Year, Correspondent Banking Department has continued to play the important role in making the name of the Bank known widely in the International Financial Market. This has helped to expand the correspondent banking network worldwide with wider choice of arrangements with more than 350 correspondents. A number of foreign banks and financial institutions have opened accounts with us for their regional business requirements. We have also participated in a number of Syndicated Murabaha transactions at various levels – Arrangers, Co-Arrangers, and Participants. Our goal in the coming years shall be to look closely for business opportunities in Asia and Middle East. Asia and the Middle East are in better shape due to strong economic fundamentals and proactive policy actions.

Private Banking Department
Private Banking Department of Boubyan Bank is specialized in wealth management and providing personalized, innovative and unique financial services and solutions to wealthy, prestigious and elite high net-worth clients. By offering convenient and responsive services, we make sure that they are tailor-made to meet the credit and investment needs of wealthy individuals.

We realize that Private Banking clients want bespoke, exclusive financial services that maintain their priority, privacy, confidentiality and satisfaction. To achieve this, we add value to our clients' wealth and status by giving them VVIP treatment; the top management works closely with them to understand their individual requirements with regards to daily banking services as well as long-term wealth management.

Performance Highlights – 2008

We are always on hand to offer assistance and advice and constantly strive to increase the potential value of our clients' assets by reducing risk and managing their portfolios effectively.

Treasury group Income was KD 45,281 thousand and net operating profit before provisions amounted to KD 12,436 thousand according to the internal policy for business group performance measurements.

Corporate Finance Group

Corporate Finance Group witnessed significant growth in its portfolio to cover all business sectors and reinforced its position in the local market by attracting numerous major companies. Through its shari'a-compliant solutions and its experienced staff, Corporate Finance Group managed to accommodate the needs of the bank customers. Finance managers, who have strong and favorable relationships with customers, conducts deliberate study of customer needs to help their business grow and develop. Finance managers in Corporate Finance Department perform beyond all expectations to provide technical and professional advisory services for their customers.

Due to the importance of real estate sector among the other active sectors in Kuwait, we designed shari'a-compliant and tailor-made financial solutions to accommodate our customers' needs and finance their property trading activities in terms of both commercial and investment properties. Boubyan's tailored financing solutions are based on the objectives of the customers through all types of letters of credit and Murabaha deals to support import and export business in an accurate, professional and timely manner.

Contracting sector is paid a significant attention, 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.

Despite the challenges of the financial crises during the 2nd half of 2008, the prudent policy adopted by the group assists the bank avoid high risks and maintain a high quality of financing portfolio to achieve the highest returns.

Corporate Finance Income was KD 17,060 thousand and net operating profit before provisions amounted to KD 4,215 thousand according to the internal policy for business group performance measurements.

Retail Banking Group

Being the direct link between the bank and its customers and due to its major contribution to the development of the bank, Retail Banking Group of Boubyan Bank has been further developed by, among other changes, improving the services rendered to its customers, who now have various first-rated banking services provided by dedicated, highly qualified and experienced teams with the aim to gain customer satisfaction. The bank branch network has also expanded to cover new residential areas and 9 car agencies.

New branches have been allocated for ladies to ensure their privacy and flexibility for their banking transactions.

Commensurate with the bank's visions, a range of shari'a-complaint and innovative products were launched such as Mudharaba Deposit, whereby the customer is free to opt the investment tenor, and Education Manfa'a to finance private education in shari'a-complaint manner. E-banking Department made all of these products and services available through the bank's website.

Simultaneously with branch expansion, new services shall be added to our present e-services to enable our customers complete their transactions in an easy and safe way.

Operations Group

Operations Group, which consists of Operations department, Credit and Finance Administration and Business Analysis Department, had played a significant role in the Bank's progress during the year 2008. The Bank has seen a considerable growth in the volume of transactions. Since the Operations Department serves as the backbone of the Bank's operational activities; it was able to effectively handle such growth. This year has been a very successful year for the department in-terms of earnings as well as introducing new and enhanced services to both our internal and external customers.

Credit and Finance Administration was able to provide an excellent support to the business areas by extending their services to our corporate clients. In addition, the department was instrumental in implementing their core system successfully.

The Business Analysis Department was engaged in developing and streamlining the workflows and procedures for several areas of the Bank. The department was also involved in many system implementations during the year efficiently. Operations Group is constantly striving to improve its services in the coming year.

Human Resources & Marketing Group

In view of its role as a strategic partner to all groups and divisions, Human Resources & Marketing Group continued its active contribution to the accomplishment of Boubyan Bank strategic objectives. This strategic partnership has impacted the activities of all Divisions within the group including HR Administration, Training, Service Quality and Marketing and Public Relations.

Human Resources
With the aim of attracting highly professional staff members, HR continued to hire professional manpower to meet the business needs of the Groups in order to attain their strategic objectives. However, targeting fresh graduates was another aim for the Group. The bank also placed a number of Summer Trainees from Kuwait University and other private universities within its branch networks to provide them with on the job experience to support their academic studies. Moreover, HR has managed to increase the percentage of Kuwaiti Nationals up to 55% which comprises of qualified personnel and fresh gradates.

ITQAN Academy
With the aim of building a base of highly qualified bankers and international recognized professionals, ITQAN Academy managed to get a number of the staff members certified in a number of business areas such as branch

management, credit management, Shariah Advisors, and other certifications. Additionally, ITQAN academy started a sponsorship for MBA in order upgrade the educational level of the bank's staff. To promote a sales culture, ITQAN academy introduced sales program through its strategic partnership with international companies to cover all front line employees. This is in addition to the regular training programs organized locally and abroad to meet the unique training needs of individual business units.

Service Quality and Customer Care

The main goal of the Service Quality and Customer Care Department was to differentiate Boubyan Bank in the market through the quality of services provided to customers. In order for Boubyan Bank to have this edge, the Service Quality and Customer Care Department provided the Bank with tools, measurements and training which allowed it to deliver exceptional service at all times. As a result of the above, Boubyan Bank was able to set and maintain Service Quality standards and implement world class customer service, which led to an increase in Customer Retention and Loyalty and a bigger Market Share.

Marketing & Public Relations

The main role of Marketing & Public Relations department is providing full external and internal communicational support to all bank divisions in achieving their business objectives. It also plays a strategic role in sponsoring and participating in various exhibitions/conferences promoting real estate, recruitment opportunities (Kuwaitization), education, health care and social responsibility.

The department had also introduced the "WOW Idea" incentive scheme; that is inviting brilliant ideas for improving the bank's overall image, clients servicing, business operations efficiency and profitability.

IT Group

The prime objectives of IT Group during the year 2008 were to support the Bank in its quest to provide outstanding customer service through additional branches, enhanced delivery channels and implementation of various software solutions in support of business functions. To this effect IT Group have accomplished the following major milestones:

Investment Banking:

Investment department went live during this year with the iMAL Assets module to automate the whole investment department operations. All investment deals were migrated to the production environment whereby all investment functions under the Assets module could be utilized.

Financial Fusion Internet Banking solution:

Financial Fusion Internet Banking solution from Sybase provides Retail and Corporate Banking facilities to our customers over the Internet. Funds Portal is a module that enables customers to view and track the performance of all their subscribed funds. There is also a new feature that allows customers to open different types of accounts in different currencies online with immediate access to those newly opened accounts from any of the delivery channels. Straight-through-processing was enhanced to send out funds transfer instructions directly from Internet Banking into the SWIFT network without any human intervention.

Document Management System:

The Document Management System has been operational in pilot stage with four groups within the Bank to manage their digital content/documents in addition to scanning of paper based documents for branches.

Performance Highlights – 2008

EMV Compliance:
All Boubyan ATMs have been upgraded to support Chip card by installing CAM II on them and operational through KNET using Visa Early Option features.

Disaster/Recovery set up:
The Disaster/Recovery capabilities were enhanced with availability of Internet Banking, IVR & Call Centre, Payment Gateway and Back Office applications. A major test was conducted to failover to DR site for all the above mentioned systems including the core banking system from the production which turned out to be a great success as there were no errors/ issues generated during the exercise while keeping the down time to less than 15 minutes. The D/R failover test will be repeated every three months in a live situation starting 2009.

Moreover another disaster/recovery site is being implemented offshore which will provide minimum access to critical systems such as core banking, trade finance and HR & Payroll in the event of invoking a business continuity emergency.

IT Governance & Quality Assurance:
Being an integral part of IT Group, IT Governance & Quality Assurance unit started focusing on technology, IT structure and process design & compliance in addition to IT regulatory compliance since its establishment in 2008. The unit has been upgrading the capabilities in obtaining ISO 27001"Information security Management System" certification through Gap analysis & Scoping, Information Asset validation, Identifying C,I,A Ratings, IT Risk Management, Risk Identification etc. The certification is targeted for July 2009 while also planning to undertake implementation and certification of Payment card industry Data Security Standard (PCI-DSS) and IT Service Management ISO 20000.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS
The Board of Directors is responsible for the overall direction, supervision and control of the Bank. There are currently nine Directors on the Board, eight of them are non-executive, with varied backgrounds and experience, who individually and collectively exercise independent and objective judgment.

The shareholders appoint the Board for a period of three years and the Board meets regularly (during 2008 has met 5 times) and has a formal schedule of matters reserved to it, considering key aspects of the Bank's affairs referred to it for decision. It reviews the Bank's strategy and financial plans, significant changes to the Bank's policies, structure and organization, reports provided to it on the operations of it and the performance of executive management. The Board and its Committees are provided with full and timely information to enable them to discharge their responsibilities. In general, Directors do not have, and in 2008 no Director had at any time during the year, any direct or indirect material interest in any contract of significance with the bank or its subsidiaries.

The Board has overall responsibility for the Bank's system of internal control and its effectiveness. There are well-established and ongoing procedures in place for identifying evaluating and managing significant risks faced by the Bank. Management has the prime responsibility for identifying and evaluating on a continuous bases, significant risk to the business of the Bank and for the design and operation of appropriate internal controls. The Bank's system of internal control procedures for a documented and auditable trail of accountability across it's operations. The system is designed to ensure effective and efficient operations and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

BOARD COMMITTEES

Specific responsibilities have been delegated to the Board committees. The four principal Board committees are the Executive Committee, Human Resources and Administration Committee, Retail Banking Services Committee and the Audit Committee.

Subject to certain specific matters which the Board reserves to itself, the Executive Committee retains all of the responsibilities and exercises all of the authority of the Board between its meetings.

The Human Resources and Administration Committee was formed in 2008 to oversee and guide the hiring and Compensation of the bank's senior management, key personnel and staff to ensure that compensation is consistent with the bank's culture, long term objectives and strategy and control environment in addition to overseeing the training, public relations and marketing and general services activities of the bank.

The Retail Banking Services Committee was formed in 2008 to formulate policies and procedures that would help in effective oversight and directing of all activities relating to retail banking.

The Board has delegated to the Audit Committee the responsibility for ensuring the existence of an effective system of financial, accounting and risk management controls. The audit committee achieves this through its regular review of the adequacy and effectiveness of the internal control structure of the Bank. The Committee also monitors compliance with the requirements of the regulatory authorities.

The Audit Committee meets at least four times a year (during 2008 has met 6 times). During its meetings, it reviews procedures for identifying business risks and controlling their financial impact, preventing or detecting fraud, complying with regulatory and legal requirements, and monitoring the operational effectiveness of policies and systems. Selected members of management are invited to meetings to discuss relevant issues.

The Committee reviews all internal audit reports, all reports issued by the various regulatory authorities and by external auditors, and all management letters from the external auditors. It is kept informed of legal, compliance and regulatory matters as they arise.

The Committee meets regularly with both the internal auditors and the external auditors. During these meetings, it considers the annual audit plans, the frequency and scope of internal reviews of any given business unit being determined by several factors including its level of financial, operational and credit risk and the previous rating assigned to it.

MANAGEMENT COMMITTEES

The bank has also established the following management committees:

Assets and Liabilities Management Committee ("ALCO")

The ALCO serves as the primary monitoring and decision making body that provides direction for the management of assets and liabilities, rate of return and liquidity risk based on the approved risk framework.

Risk Management Committee ("RMC")

The RMC provides oversight of the bank's activities in managing credit, market, liquidity, operational, compliance, reputation and other risks in the bank.

Performance Highlights – 2008

Provisions Committee
The purpose of this committee is to review and evaluate the outstanding investments and financing transactions for each customer to determine any issues or difficulties relating to the customer position that require to classify such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and International Financial Reporting Standards ("IFRS").

Qard Hasan Committee
The purpose of this committee is to study the Qard Hasan applications submitted by employees and issuing recommendations on approving or non approving these applications based on standards identified by the bank's policy.

Investigations Committee
The purpose of this committee is to investigate any matters escalated to the committee by the bank's General Managers/Group Heads, Top Management, Audit Committee or Board of Directors.
IT Steering Committee
The IT steering committee's mission is to assist the board in overseeing IT related activities. The committee regularly reports to the board on the status of major IT projects or issues. In addition, the committee ensures the board has adequate information to make informed decisions about IT operations.

IT Security Committee
The main objective for the committee is to plan appropriate technical safeguards to protect information and resources. It is also responsible for addressing, managing, and enforcing an effective and sound Information Technology Security controls all over the bank.

SHARI'A CONTROL COMMITTEE
The Shari'a Control Committee is an independent external committee appointed by the board to make sure that the bank business is conducted in accordance with the Islamic guidelines. The Shari'a Control Committee held 10 meetings during 2008.

TOP MANAGEMENT
The Top Management are responsible for overseeing the day-to-day management of the bank and have the necessary skills to manage the business under their supervision as well as have appropriate control over the key individuals in these areas. Senior managers contribute a major element of the bank's corporate governance by overseeing line managers in specific areas and activities consistent with the policies and procedures set by the bank's Board and establishing an effective system of internal controls under the guidance of the Board.

EXTERNAL AUDITORS
Independent, competent and qualified external auditors are vital to the corporate governance process by ensuring that the consolidated financial statements of the bank and subsidiaries (Collectively "the Group") present fairly, in all material respects, the financial position of the Group and its financial performance and its cash flows in addition to the review of the internal controls system.

CORPORATE CONTROL FUNCTIONS

The bank's corporate control functions comprises of:

Internal Audit
The internal audit function is the core of each control and corporate governance system. The internal audit function reports directly to the Audit Committee and indirectly to the Chairman. The Internal Audit has a charter of the Internal Audit Function which was approved by Board and Chairman of Audit Committee.

The internal audit function has been structured into the following:

Banking Operations Audit
The objective of this audit is to cover all banking operations areas in addition to the bank's subsidiaries and associates and third parties processing facilities where applicable.

Quality Assurance Review
The objective of this review is to ensure compliance with the policies and procedures manuals for the branches, improve the branches control environment and enhance branches performance and assist the management and staff in identifying areas of weaknesses on timely basis and develop practical recommendations to overcome these weaknesses.

Information Technology Audit
The objective of this audit is to examine all the controls within the Information Technology including systems and infrastructure. The review includes all policies & procedures, system functionalities & processes, reports, logs, systems hardware, technical infrastructure, disaster recovery plan and arrangements and the security controls. This evaluation will help to safeguarding the information assets, maintaining the data integrity and operating effectively and efficiently to achieve the bank's goals or objectives.

The Internal Audit has documented its own policy & procedures manual, which was approved by the Audit Committee. Our internal audit function encompasses of highly-qualified, well experienced and a competent Executive and staff. During the year, the Internal Audit Department has successfully completed reviews of policies and procedures of the bank's various areas to ensure their compliance with best international standards and practices and are operating in accordance with the relevant approved policies and procedures also, and as a result of a comprehensive and scientific risk assessment approach that was prepared for all areas, functions and operations of the bank, an internal audit plan was prepared and approved by the audit committee to:

- Provide an independent appraisal, analysis, recommendations, counsel and information concerning the adequacy and effectiveness of the bank's internal control structure;

- Promote effective internal controls at a reasonable cost;

- Identify weaknesses in controls, reporting them to management and making recommendations for improvements; and

- Ensure recommendations are implemented in an effective and timely manner.

Participating in various internal committees within the bank as consultants and maintained objectivity and did not assume management responsibility during their participation in such committees.

Following up on a quarterly basis as per the IIA's standards the internal auditors on actions taken by the management for all recommendations of the regulators, internal and external auditors.

Compliance and Combat Money Laundering & Terror Financing
Compliance Department verifies that all bank groups/departments comply with the applicable laws, regulations and guidelines, chief amongst them regulations and instructions issued by the Central Bank of Kuwait. Compliance Department also ensures also that all groups/departments are in conformity with the applicable regulations and coordinate with the other bank entities for regulatory reporting purposes.

The bank pays special attention to the requirements for combat of money laundering and terror financing, for which an integral policy has been developed to provide protection and avoid any potential risk.

Risk Management

Boubyan Bank Risk management frame work
The philosophy of risk management in Boubyan Bank is to ensure an integrated and effective Bank wide risk management, where all risks are timely identified, possible quantified and managed in order to achieve an optimal risk-reward profile of the bank.

The risk management group of the bank has Board approved Risk management policy frame work in line with CBK guidelines and applicable best practices of IFSB & Basel committee.

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

The risk to which the bank is exposed mainly includes:
• Credit risk
• Market risk
• Operational risk (includes IT risk)

Credit risk

Credit risk management
Bank has approved financing policy (by the Board) and Financing Committee Charter which provides guiding principle for the financing business of the bank. Credit risk function of the bank has placed various measures and control for risk mitigation of the business activity exposed to credit risk such as all the credit proposals are individually risk reviewed in order to give the finance approving authorities an independent risk based reviews. Financing proposals are segregated in to small ticket proposals and big ticket proposals; the Board Executive Committee (BEC) is the approving authority for all the big ticket proposals with certain financing limits. The bank is in process of establishing Borrower risk rating model (BRR) in order to have credit scoring based model for the individual borrowers.

The credit risk function monitored and ensures the Collaterals and their concentrations are timely checked and reported to the management. It also ensures that adherence to bank's collateral policy which is regularly monitored, reviewed and timely reported for the changing dynamic of credit exposures. Financing portfolio risk report is timely prepared and all the aspects of the lending, their concentrations, collateral weightings etc are checked and reported.

Credit risk mitigation
Effective risk mitigation is the fundamental strategy of the bank. In order to mitigate the credit risk bank's exclusively deals with the financial institutions having a high credit rating and applies de-concentration approach towards other counter parties with approved limits as specified by bank policy, based on the counter parties overall position for meeting the financial obligations backed by adequate collaterals.

Collateral management
The collateral type with bank mainly includes:
• Real estate
• Pledged shares
• Bank guarantees
• Fixed deposits
• Sukuk
• BB Financial Fund

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

Market risk

Market risk management
The bank has approved ALCO policy with an active Assets & Liability Management committee comprising the senior most members from the key areas of the bank. Market risk function has set in place various measures and control to mitigate market risk such as continuous monitoring of the liquidity position of the bank primarily ensuring its compliance with the regulatory requirements and reporting to the management. Currently bank has very minimal it own trading book positions and hence its exposure to those risk is minimal, but the main activity of bank is the meeting the funding requirement of the different line of banking business and hence the non-trading book constitute the major portion of the overall banking book. Market risk function has initiated and will be completing a process of comprehensive middle office function so risks can effectively measured, managed and monitored especially for the three key business areas of the bank i.e. Treasury, Corporate and Investment.

Vetting of investment proposals and providing the senior management with due risk reviews is one of several key elements of market risk management. Effectively monitoring and reporting on the various positions taken by the bank in FC and especially with regards to the liquidity of the Bank.

FX risk
Bank ensures that FX risk are kept at the acceptable level, by making effective use of currencies related to GCC and other currencies peg in currency basket prescribed by CBK.

Liquidity risk
Liquidity risk management is the one of the vital part of managing day to day banking business. In order to meet any eventuality it's a bank liquidity strategy to maintain healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. Furthermore, bank continuously monitor the maturity profile of its assets and liabilities and ensures liquidity positions of the bank are within the manageable level.
Bank does not use derivatives for hedging its positions exposed to market risk due to Shari'a compliance.

Operational risk

Operational risk management
It is prime task of the bank to avoid and restrict any inadequacy relating to people, processes and technology. The banking business processes are regularly reviewed, monitored, especially processes relating to I.T systems. A standard operational risk matrix has been developed to evaluate IT projects and implement the control measures.

Bank has in place its Business Continuity Plan (BCP) and Disaster Recovery Plan forming a part of BCP to meet any internal or external failures or eventualities enabling smooth functioning of the bank business processes. The bank has fully established Disaster Recovery (DR) sites both local and off shore. It also ensures de-escalation of the operational risk on all the areas of the banking business. Being an Islamic bank, bank pays very special attention to operational risk of losses which can be from Shari'a non-compliance and the failure in fiduciary responsibilities.

Bank's emphasizes on continuous risk monitoring and reporting with risk ownership and accountability. Risk reporting lines and authority are properly in place which plays key role in addressing specific risks for the bank operations.

Legal Department
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. A special unit has been established to handle all legal suits and follow up with the bank's delinquent customers.

Shari'a Supervision Department
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 quarterly 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.

OTHER CORPORATE GOVERNANCE PRACTICES
The bank has a code of conduct and in the process of implementing a whistle blowing system to enable all stakeholders to communicate their concerns regarding any illegal or unethical acts or other corporate governance weaknesses.

Report of Fatwa & Shari'a Supervisory Board
In the Name of Allah, The Merciful, The Compassionate

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Flok, Companions and Followers to the Day of Judgment
The Fatwa & Shari'a Supervisory Board “The Shari'a Board” in Boubyan Bank has reviewed and amended all the bank's contracts and translations presented to it by the Bank management to ensure their conformity with the principles and regulations of the Islamic Shari'a.

The Shari'a Board also responded to all questions and inquiries related to the bank's business and operations.

Without referral to Shari'a Board, the bank has entered into contracts, on which Shari'a Board took the proper actions to ensure their conformity with the principles and regulations of Islamic Shari'a.

Based on the report presented to Shari'a Board by Shari'a Supervision Department and Shari'a Board's Executive Committee, and also on what Shari'a 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 31.12.2008 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, corrections and more success.

Peace be upon our prophet Muhammad 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. Essam K. Al-Enezi
Member

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

Consolidated Financial Statements
And Independent Auditors' Report
For the Year ended 31 December 2008

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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 2008, 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 2008, 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 2008 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2008.

Jassim Ahmad Al-Fahad

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

17 February 2009
Kuwait

Safi A. Al-Mutawa

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	31 December 2008 KD'000	31 December 2007 KD'000
Income			
Murabaha and other Islamic financing income		38,270	32,508
Net investment income	5	15,311	6,826
Fees and commissions income	6	4,837	9,414
Share of results of associates	16	1,130	4,478
Net foreign exchange gain		131	1,003
Other income		15	66
		59,694	54,295
Expenses			
Staff costs		10,303	9,771
General and administrative expenses		5,738	4,126
Depreciation and amortization		1,332	740
		17,373	14,637
Profit before Murabaha cost, provision for impairment and distribution to depositors		42,321	39,658
Murabaha cost		3,890	5,214
Provision for impairment	7	20,450	1,176
Profit before distribution to depositors		17,981	33,268
Distribution to depositors	8	15,851	13,857
Profit after distribution to depositors		2,130	19,411
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		18	173
National Labour Support Tax ("NLST")		51	486
Zakat		21	12
Directors' fees		108	108
Net profit for the year		1,932	18,632
Attributable to:			
Equity holders of the Bank		1,846	18,562
Minority interest		86	70
Net profit for the year		1,932	18,632
Earnings per share attributable to the equity holders of the Bank (fils)	9	1.58	15.93

The notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	31 December 2008 KD'000	31 December 2007 KD'000
Assets			
Cash and cash equivalents	10	67,996	49,032
Short term Murabaha and other Islamic financing	11	260,950	307,040
Receivables	12	267,730	197,703
Leased assets	13	88,071	67,389
Financial assets held at fair value through profit or loss		44,097	9,702
Available for sale investments	14	58,181	56,258
Investments in associates	16	5,914	25,306
Trading properties		2,754	2,733
Investment properties	17	29,962	18,960
Other assets	18	9,919	7,421
Property and equipment		4,887	4,384
Total assets		840,461	745,928
Liabilities and Equity			
Liabilities	19		
Due to banks	20	118,131	287,508
Depositors' accounts	21	569,636	307,459
Other liabilities		15,153	11,471
Total liabilities		702,920	606,438
Equity			
Share capital	22	116,531	105,937
Share premium	23	280	280
Statutory reserve	24	3,913	3,709
Voluntary reserve	25	3,591	3,406
Fair value reserve		(798)	2,201
Foreign currency translation reserve		(1,619)	(733)
Retained earnings		13,250	22,387
Equity attributable to equity holders of the Bank		135,148	137,187
Minority interest		2,393	2,303
Total equity		137,541	139,490
Total liabilities and equity		840,461	745,928

Mohammed Yousef Al-Roumi
Chairman

The notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	Voluntary reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Retained earnings KD'000	Attributable to equity holders of the Bank KD'000	Minority interest KD'000	Total KD'000
Balance at 1 January 2007	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 relating to 2006	-	-	48	-	-	-	(48)	-	-	-
Net movement in minority interest	-	-	-	-	-	-	-	-	(2)	(2)
Balance at 31 December 2007	105,937	280	3,709	3,406	2,201	(733)	22,387	137,187	2,303	139,490
Unrealized loss on available for sale investments	-	-	-	-	(2,999)	-	-	(2,999)	-	(2,999)
Foreign currency translation adjustments	-	-	-	-	-	(886)	-	(886)	-	(886)
Net loss recognized directly in equity	-	-	-	-	(2,999)	(886)	-	(3,885)	-	(3,885)
Net profit for the year	-	-	-	-	-	-	1,846	1,846	86	1,932
Total recognized income and expense for the year	-	-	-	-	(2,999)	(886)	1,846	(2,039)	86	(1,953)
Issue of bonus shares	10,594	-	-	-	-	-	(10,594)	-	-	-
Transfer to reserves for the year	-	-	204	185	-	-	(389)	-	-	-
Net movement in minority interest	-	-	-	-	-	-	-	-	4	4
Balance at 31 December 2008	**116,531**	**280**	**3,913**	**3,591**	**(798)**	**(1,619)**	**13,250**	**135,148**	**2,393**	**137,541**

The notes from 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	31 December 2008 KD'000	31 December 2007 KD'000
OPERATING ACTIVITIES			
Net profit for the year		1,932	18,632
Adjustments for:			
Provision for impairment	7	20,450	1,176
Depreciation and amortization		1,332	740
Foreign currency translation		(131)	2,245
Gain from sale of associate		-	(452)
Gain from sale of available for sale investments		(63)	(217)
Gain from sale of investment properties		(137)	-
Unrealized gain from financial assets held at fair value through profit or loss		(10,240)	(955)
Share of results of associates		(1,130)	(4,478)
Dividend income		(1,609)	(1,706)
Unrealized loss from change in fair value of investment properties		1,715	-
Impairment loss on available for sale investments		1,431	-
		13,550	14,985
Changes in operating assets and liabilities:			
Decrease/(increase) in short term Murabaha and other Islamic financing		35,688	(29,272)
Increase in receivables		(77,477)	(82,729)
Increase in leased assets		(22,933)	(60,502)
(Increase)/decrease in other assets		(2,498)	11,203
(Decrease)/increase in due to banks		(160,407)	176,079
Increase in depositors' accounts		262,177	43,131
Increase in other liabilities		3,335	3,318
Dividend income received		1,609	1,706
Net cash from operating activities		53,044	77,919
INVESTING ACTIVITIES			
Purchase of available for sale investments		(15,588)	(40,071)
Purchase of financial assets held at fair value through profit or loss		(14,834)	(1,018)
Proceeds from sale of available for sale investments		12,997	11,422
Purchase of investments in associates		-	(16,083)
Dividends from associates		451	806
Purchase of investment properties		(15,773)	(7,893)
Proceeds from sale of investment properties		498	2,520
Purchase of property and equipment		(1,835)	(1,515)
Net cash used in investing activities		(34,084)	(51,832)
Net change in minority interest		4	(2)
Net increase in cash and cash equivalents		18,964	26,085
Cash and cash equivalents at the beginning of the year		49,032	22,947
Cash and cash equivalents at the end of the year	10	67,996	49,032
NON-CASH TRANSACTION			
Investing activities			
Transfer of investment in associate to financial assets held at fair value through profit or loss		20,057	-

The notes from 1 to 34 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

The 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 17 February 2009.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period
Three interpretations where issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are IFRIC 11 of IFRS 2 Group and Treasury Share Transactions, IFRIC 12 Service Concession Arrangements and IFRIC 14 scope of IAS 19 the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Implementation of amendments to IAS 39, Financial Instrument: Recognition and Measurement:

On 13 October 2008, the International Accounting Standards Board (IASB) published amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures". The changes to IAS 39 permit an entity to reclassify non-derivative financial assets out of the "fair value through profit or loss" and available for sale categories in limited circumstances.

The effective date of the amendments is 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 will take effect only from the date when the reclassification is made. Any reclassification of a financial asset in accordance with the amendments should not be applied retrospectively to reporting periods ended before the effective date.

The Group has adopted the amendments to IAS 39 and the related amendments of IFRS 7. As a result, the Group has reclassified certain investments with carrying and fair values of KD 5,332 thousand as of 1 November 2008, and their carrying an fair values as of 31 December 2008 amounted to KD 1,927 from the 'held for trading' category to the 'available for sale' category with effect from 1 November 2008 as these investments are no longer held for the purpose of selling or repurchasing in the near term.

The Group has recorded unrealised losses of KD 2,175 thousand in respect of the reclassified investments in the fair value reserve within equity and KD 1,431 recognized in the income statement. Had the Group not implemented the amendments to IAS 39, the unrealised loss of KD 2,175 thousand would have been recorded in the income statement which has increased the group's earning per share by 1.87 fils.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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 1 (Revised) Presentation of Financial Statements	Effective for annual periods beginning on or after 1 January 2009
• IAS 16 (Revised) Property, Plant and Equipment	Effective for annual periods beginning on or after 1 January 2009
• IAS 19 (Revised) Employee Benefits	Effective for annual periods beginning on or after 1 January 2009
• IAS 20 (Revised) Government Grants and Disclosure of Government Assistance	Effective for annual periods beginning on or after 1 January 2009
• IAS 23 (Revised) Borrowing Costs	Effective for annual periods beginning on or after 1 January 2009
• IAS 27 (Revised) Consolidated and Separate Financial Statements	Effective for annual periods beginning on or after 1 July 2009
• IAS 28 (Revised) Investments in Associate	Effective for annual periods beginning on or after 1 July 2009
• IAS 29 (Revised) Financial Reporting in Hyperinflationary Economise	Effective for annual periods beginning on or after 1 January 2009
• IAS 31 (Revised) Interests in Joint Ventures	Effective for annual periods beginning on or after 1 July 2009
• IAS 32 (Revised) Financial Instruments: Presentation	Effective for annual periods beginning on or after 1 January 2009
• IAS 36 (Revised) Impairment of Assets	Effective for annual periods beginning on or after 1 January 2009
• IAS 38 (Revised) Intangible Assets	Effective for annual periods beginning on or after 1 January 2009
• IAS 39 (Revised) Financial Instruments: Recognition and Measurement	Effective for annual periods beginning on or after 1 January 2009 and 1 July 2009
• IAS 40 (Revised) Investment Property	Effective for annual periods beginning on or after 1 January 2009
• IAS 41 (Revised) Agriculture	Effective for annual periods beginning on or after 1 January 2009
• IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards	Effective for annual periods beginning on or after 1 January 2009.
• IFRS 2 (Revised) Share-based Payment	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3 (Revised) Business Combinations	Effective for annual periods beginning on or after 1 July 2009
• IFRS 5 (Revised) Non-current Assets Held for Sale and Discontinued Operations	Effective for annual periods beginning on or after 1 July 2009
• IFRS 8 Operating Segments	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 13 Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 15 Agreements for the Construction of Real Estate	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Effective for annual periods beginning on or after 1 October 2008
• IFRIC 17 Distributions of Non-cash Assets to Owners	Effective for annual periods beginning on or after 1 July 2009

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

The directors anticipate that the adoption of these Standards and Interpretations where applicable and 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 calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1 to 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

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 conventions, 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), Boubyan Capital Investment Company K.S.C., (Closed), Al-Seera Real Estate Company W.L.L. and Boubyan Industrial General Trading Company W.L.L., 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.
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 Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 regulations of the Islamic Sharia'a.

Wakala receivables are financial assets originated by the Group stated at amortized cost net of provision for impairment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments
Investments are recognised and derecognised on settlement date. Investments are classified into the following categories:

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

Financial assets held at Fair Value Through Profit or Loss ("FVTPL")
Financial assets are classified as held 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 held 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.

Available for sale 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to set off the recognized amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.
Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

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

The 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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). 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets (Continued)
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.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

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

Foreign currencies
The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Kuwaiti Dinars ("KD")rounded to the nearest thousand, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded in the functional currency at the 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 of.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 its estimated useful life of 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Investment properties
Investment properties, which are held to earn rentals and / or for capital appreciation, are stated at their fair value at the 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 asset 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 the significant accounting policies (note 3).

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

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 has substantially the same characteristics; or
• other valuation models.
The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. 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. NET INVESTMENT INCOME

	2008 KD'000	2007 KD'000
Gain on money market funds	3,310	1,188
Unrealized gain from changes in fair value of financial assets held at fair value through profit or loss	10,240	955
Gain on sale of financial assets held at fair value through profit or loss	18	-
Impairment loss on available for sale investments	(1,431)	-
Sukuk coupon income	1,988	1,330
Net rental income from investment properties	1,092	978
Unrealized loss from changes in fair value of investment properties	(1,715)	-
Gain on sale of investment properties	137	-
Gain on sale of available for sale investments	63	217
Dividend income	1,609	1,706
Gain on sale of associate	-	452
	15,311	6,826

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

	2008 KD'000	2007 KD'000
Income from available for sale investments	2,229	3,253
Income from financial assets designated as at fair value through profit or loss	14,139	2,143
Loss from financial assets held for trading	(571)	-
Gain from sale of associate	-	452
Investment income earned on financial assets	15,797	5,848
(loss)/ income from Investment earned on non-financial assets	(486)	978
	15,311	6,826

6. FEES AND COMMISSIONS INCOME

	2008 KD'000	2007 KD'000
Retail banking customer fees	415	195
Investment banking fees	750	6,251
Asset management fees	1,772	1,743
Trade service fees	906	373
Other	994	852
	4,837	9,414

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7. PROVISION FOR IMPAIRMENT

	2008 KD'000	2007 KD'000
Provision for\(reversal of) impairment of short term Murabaha and other Islamic financing	10,402	(425)
Provision for impairment of receivables	7,450	724
Provision for impairment of leased assets	2,251	894
Provision for\(reversal of) non-cash facilities	347	(17)
	20,450	1,176

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

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2007	-	3,786	3,786
Provided during the year 2007	-	1,176	1,176
Balance at 31 December 2007	-	4,962	4,962
Provided during the year 2008	7,216	13,234	20,450
Balance at 31 December 2008	7,216	18,196	25,412

At 31 December 2008, non-performing finance facilities amounted to KD 12,834 thousand, net of provision amounted to KD 7,283 thousand (31 December 2007: 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.

8. DISTRIBUTION TO DEPOSITORS

	2008 KD'000	2007 KD'000
Investment deposits	14,142	12,337
Saving accounts	1,709	1,520
	15,851	13,857

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:

	2008	2007
Net profit for the year attributable to the equity holders of the Bank (KD'000)	1,846	18,562
Weighted average number of shares outstanding during the year (thousands of shares)	1,165,312	1,165,312
Earnings per share attributable to the equity holders of the Bank (fils)	1.58	15.93

Earnings per share for the year ended 31 December 2007 have been adjusted to reflect the bonus issue during the year (note 22).

10. CASH AND CASH EQUIVALENTS

	2008 KD'000	2007 KD'000
Cash on hand	6,128	4,770
Balances with Central Bank of Kuwait	159	26,032
Balances with banks – current accounts	862	1,061
Cash on hand and balances with banks	7,149	31,863
Short term funds	60,847	17,169
	67,996	49,032

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:

	2008 KD'000	2007 KD'000
Industry sector		
Banks	131,573	275,830
Financial institutions	140,459	31,969
Less: deferred profit	(183)	(262)
	271,849	307,537
Less: provision for impairment	(10,899)	(497)
	260,950	307,040

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 financial institutions over buying and selling is limited by the terms of the agreements between the Group and the financial institutions.

	2008 KD'000	2007 KD'000
Geographic region		
Kuwait and The Middle East	245,797	306,017
Western Europe	25,627	1,520
Other	425	-
	271,849	307,537
Less: provision for impairment	(10,899)	(497)
	260,950	307,040

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11. SHORT TERM MURABAHA AND OTHER ISLAMIC FINANCING (CONTINUED)

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:

	2008 KD'000	2007 KD'000
Balance at beginning of the year	497	922
Provided\(reversal) during the year	10,402	(425)
Balance at end of the year	10,899	497

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:

	2008 KD'000	2007 KD'000
Industry sector		
Banks	16,023	14,613
Financial institutions	84,572	51,243
Construction and real estate	94,395	53,266
Trading and manufacturing	32,698	35,749
Other	60,018	50,796
Less: deferred profit	(9,873)	(5,311)
	277,833	200,356
Less: provision for impairment	(10,103)	(2,653)
	267,730	197,703
Geographic region		
Kuwait and The Middle East	264,803	183,314
Western Europe	10,239	10,766
Other	2,791	6,276
	277,833	200,356
Less: provision for impairment	(10,103)	(2,653)
	267,730	197,703

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

	2008 KD'000	2007 KD'000
Balance at beginning of the year	2,653	1,929
Provided during the year	7,450	724
Balance at end of the year	10,103	2,653
Financial institutions	2,753	670
Other	7,350	1,983
	10,103	2,653

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:

	2008 KD'000	2007 KD'000
Gross investment	94,167	72,254
Less: unearned revenue	(2,792)	(3,812)
	91,375	68,442
Less: provision for impairment	(3,304)	(1,053)
	88,071	67,389

The future minimum lease payments receivable to each of the following periods is:

	2008 KD'000	2007 KD'000
Within one year	90,106	65,273
One to five years	1,269	2,623
After five years	-	546
	91,375	68,442

The unguaranteed residual value of the leased assets at 31 December 2008 is estimated at KD Nil (2007: KD Nil).

The fair values of the leased assets do not differ significantly from respective book values.

14. AVAILABLE FOR SALE INVESTMENTS

	2008 KD'000	2007 KD'000
Investment in Sukuk	38,122	36,118
Investment in unquoted funds	9,688	9,258
Investment in unquoted securities	8,444	10,882
Investment in quoted securities	1,927	-
	58,181	56,258

	2008	2007
Investments carried at fair value	58,181	54,135
Investments carried at cost less impairment	-	2,123
	58,181	56,258

	2008 KD'000	2007 KD'000
Geographic region		
Kuwait and The Middle East	57,905	54,620
Others	276	1,638
	58,181	56,258

14. AVAILABLE FOR SALE INVESTMENTS (CONTINUED)

Available for sale investment dominated to the following currencies:

	2008 KD'000	2007 KD'000
KD	15,150	15,412
US Dollar	41,086	40,846
Euro	1,945	-
	58,181	56,258

15. SUBSIDIARIES

During 2007, the Bank has established a fully owned subsidiary, Boubyan Capital Investment Company K.S.C. (closed) ("BCICO"), a Kuwaiti Shareholding Company engaged in investments activities in accordance with Noble Islamic Sharia'a principles.

During the current year, BCICO, in collaboration with its parent, Boubyan Bank, established Al-Seera Real Estate Company W.L.L. and Boubyan Industrial General Trading Company W.L.L. with an ownership interest in each of 91% for BCICO and 9% for Boubyan Bank.

On 25 September 2008, capital of Al-Seera Real Estate Company was increased by KD 980 thousand. Accordingly, the aforementioned company's capital amounted to KD 1,000 thousand divided into the same ownership percentage as mentioned above.

Name of subsidiary	Country of incorporation	2008 proportion of ownership interest and voting power %	2007 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Co. KSC (Closed)	Kuwait	56.78	56.44	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	100.00	100.00	Islamic investments
Al-Seera Real Estate Company W.L.L.	Kuwait	100.00	-	Real estate
Boubyan Industrial General Trading Company W.L.L.	Kuwait	100.00	-	General trading

16. INVESTMENTS IN ASSOCIATES

The investments in associates comprise the following:

Name of associate	Country of incorporation	2008 proportion of ownership interest and voting power %	2007 proportion of ownership interest and voting power %	Principal activity
Bank Syariah Muamalat Indonesia Tbk	Indonesia	21.28	21.28	Islamic commercial banking
Bank of London & the Middle East PLC	United Kingdom	-	20.00	Islamic wholesale banking
Ijarah Indonesia Finance Company	Indonesia	33.30	33.30	Islamic financing services

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

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.

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. During 2007, 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. During the year, the Group's interest in BLME was diluted again from 20% to 14.97% and a gain of KD 1,659 thousands was recognized in equity under premium from share dilution in associate. As at 31 December 2008, the Group does not maintain significant influence over BLME, since resignation of the Group's sole representative from Boubyan Bank during the year and, moreover, the Bank does not have the contractual rights that enable the Bank to replace such member or appoint another one. Therefore, the investment has been accounted for as a financial asset held at fair value through profit or loss. This has resulted in the recognition of KD 6,590 thousand unrealized gain from change in fair value of assets held at fair value through profit or loss for the current year.

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 amounted to KD 965 thousand as at 31 December 2008. During the year the group's share of results amounted to KD 104 thousand.

	2008 KD'000	2007 KD'000
Balance at the beginning of the year	25,306	9,080
Acquisition of associates	-	17,216
Premium from associate	1,659	-
Transfer / sale of associate	(20,057)	(3,353)
Share of results of associates	1,130	4,478
Dividends received	(451)	(806)
Foreign currency translation adjustments	(1,673)	(1,309)
	5,914	25,306

The Group's share of results of associates is recognised based on unaudited financial statements. The financial statements date of Bank Muamalat and Ijarah Indonesia Finance is 31 October 2008 which are the most recent available financial statements. The Group's share in the balances of its associates as at 31 December 2008 were as follows:

Name of the associate	Assets KD'000	Liabilities KD'000	Revenues KD'000	Results KD'000
Bank Syariah Muamalat Indonesia TBK	64,709	59,760	4,196	1,006
Bank of London & the Middle East PLC	-	-	-	20
Ijarah Indonesia Finance Company	1,047	82	143	104
	65,756	59,842	4,339	1,130

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16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The Group's share in the balances of its associates as at 31 December 2007 was as follows:

Name of the associate	Assets KD'000	Liabilities KD'000	Revenues KD'000	Results KD'000
Bank Syariah Muamalat Indonesia TBK	63,752	58,571	3,845	688
Al Bilad Real Estate Company.	-	-	-	115
Bank of London & the Middle East PLC	30,323	11,213	1,030	3,675
Ijarah Indonesia Finance Company	1,030	15	-	-
	95,105	69,799	4,875	4,478

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2008 KD'000	2007 KD'000
Balance at the beginning of the year	18,960	13,508
Purchases during the year	15,773	7,893
Sales during the year	(360)	(2,520)
Unrealized loss from changes in fair value of investment properties	(1,715)	-
Foreign currency translation adjustments	(2,696)	79
	29,962	18,960

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

Investment properties include properties with a carrying value of KD 19,478 thousand as at 31 December 2008 (31 December 2007: KD 16,515 thousand), which were acquired through a number of special purpose entities.

18. OTHER ASSETS

	2008 KD'000	2007 KD'000
Accrued income	1,845	1,979
Prepayments	1,855	1,484
Acceptance letters of credit	3,486	2,574
Software	1,317	1,170
Others	1,416	214
	9,919	7,421

19. DUE TO BANKS

	2008 KD'000	2007 KD'000
Investment accounts	102,645	162,013
Non-investment accounts	15,486	125,495
	118,131	287,508

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 differ significantly from their respective book values.

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20. DEPOSITORS' ACCOUNTS

	2008 KD'000	2007 KD'000
Investment accounts	510,453	256,198
Non-investment accounts	59,183	51,261
	569,636	307,459

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

21. OTHER LIABILITIES

	2008 KD'000	2007 KD'000
Creditors and accruals	1,042	505
Accrued staff benefits	3,752	4,151
Clearing accounts	4,692	2,200
General provision on non-cash facilities	1,106	759
Margin accounts	571	468
Due to KFAS, NLST and Zakat	90	671
Others	3,900	2,717
	15,153	11,471

22. SHARE CAPITAL

	2008 Shares	2008 KD'000	2007 Shares	2007 KD'000
Authorized ordinary shares of par value 100 fils	1,166,000,000	116,600	1,060,000,000	106,000
Fraction shares not issued	(687,556)	(69)	(625,051)	(63)
Shares issued and fully paid	1,165,312,444	116,531	1,059,374,949	105,937

The general assembly of the shareholders held on 17 March 2008 has approved bonus share dividends at 10% (31 December 2007: 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 Bank's 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.

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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:

	2008 KD'000	2007 KD'000
Not later than one year	2,499	1,822
After one year and not later than five years	5,288	4,606
	7,787	6,428

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:

	2008 KD'000	2007 KD'000
Due from related parties:		
Short term Murabaha and other Islamic financing	28,604	11,094
Receivables	-	4,616
Due to related parties:		
Due to banks	-	15,812
Depositors' accounts	74,139	62,696
Transactions with related parties:		
Letters of guarantee and letters of credit	87	15
Revenues	2,701	1,912
Expenses	2,768	3,979

The Group holds collaterall against Islamic finance facilities to related parties in the form of unquoted shares. An estimate of the fair value of collateral held against Islamic finance facilities to related parties amounted to KD 8,000 thousand as at 31 December 2008 (2007: KD 11,700 thousand).

For the year ended 31 December 2008, the Group has recorded a impairment of receivables amounted to KD 6,000 thousand relating to amounts owed by related parties (2007: KD Nil).

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2008 KD'000	2007 KD'000
Short-term benefits	3,067	3,123
Post-employment benefits	138	51
	3,205	3,174

During the year, the Bank sold to one of its subsidiaries available-for-sale investments of KD 5,131 thousand (31 December 2007: 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 had 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:

	2008 KD'000	2007 KD'000
Guarantees	35,120	32,052
Acceptances and letters of credit	12,530	7,376
Investment commitments	1,134	1,690
Capital commitments (projects under construction)	412	1,075
Credit commitments	55,172	14,347
	104,368	56,540

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.

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29. SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2008

	Retail banking KD'000	Corporate banking KD'000	Investment KD'000	Treasury KD'000	Unallocated items KD'000	Total KD'000
Segment revenues	1,165	16,317	11,464	30,083	665	59,694
Segment expenses	(9,567)	(5,974)	(1,062)	(32,208)	(8,951)	(57,762)
Segment results	(8,402)	10,343	10,402	(2,125)	(8,286)	1,932

	Retail banking KD'000	Corporate banking KD'000	Investment KD'000	Treasury KD'000	Unallocated items KD'000	Total KD'000
Assets						
Cash and cash equivalents	8,285	-	-	59,711	-	67,996
Short term Murabaha and other Islamic financing	-	-	-	260,950	-	260,950
Receivables	11,348	137,701	-	118,681	-	267,730
Leased assets	-	64,233	-	23,838	-	88,071
Financial assets held at fair value through profit or loss	-	-	44,097	-	-	44,097
Available for sale investments	-	-	20,059	38,122	-	58,181
Investments in associates	-	-	5,914	-	-	5,914
Trading properties	-	-	2,754	-	-	2,754
Investment properties	-	-	29,962	-	-	29,962
Other assets	507	1,930	929	3,601	2,952	9,919
Property and equipment	2,085	100	77	193	2,432	4,887
Total assets	22,225	203,964	103,792	505,096	5,384	840,461
Liabilities and Equity						
Due to banks	41,260	-	-	76,871	-	118,131
Depositors' accounts	258,088	-	-	311,548	-	569,636
Other liabilities	611	1,060	195	276	13,011	15,153
Equity	(7,574)	13,010	(1,033)	17,467	115,671	137,541
Total liabilities and equity	292,385	14,070	(838)	406,162	128,682	840,461

29. SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2007

	Retail banking KD'000	Corporate banking KD'000	Investment KD'000	Treasury KD'000	Unallocated items KD'000	Total 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 KD'000	Corporate banking KD'000	Investment KD'000	Treasury KD'000	Unallocated items KD'000	Total KD'000
Assets						
Cash and cash equivalents	4,088	-	3,314	41,630	-	49,032
Short term Murabaha and 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 and 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)

b. Secondary segment – Geographical

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

For the year ended 31 December 2008

	Assets KD'000	Liabilities & equity KD'000	Commitments & contingencies KD'000
Geographical area:			
Kuwait and the Middle East	743,549	820,178	104,333
North America	2,048	-	19
Western Europe	78,803	13,131	-
Other	16,061	7,152	16
	840,461	840,461	104,368

	Operating income KD'000	Operating profit KD'000
Kuwait and the Middle East	48,243	(735)
North America	(1,354)	(422)
Western Europe	9,343	2,514
Other	3,462	773
	59,694	2,130

For the year ended 31 December 2007

	Assets KD'000	Liabilities & equity KD'000	Commitments & contingencies 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 KD'000	Operating profit 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

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:

	2008 KD'000	2007 KD'000
Trading and manufacturing	29,687	37,740
Banks and financial institutions	517,782	462,741
Construction and real estate	218,271	174,846
Other	74,721	70,601
	840,461	745,928

The distribution of liabilities by industry sector was as follows:

	2008 KD'000	2007 KD'000
Trading and manufacturing	24,799	12,581
Banks and financial institutions	346,405	464,103
Construction and real estate	26,596	21,676
Other	305,120	108,078
	702,920	606,438

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 derivatives financial instruments to manage its exposure to these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. To limit this risk, the Group deals with recognized customers, including 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

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 2008 KD'000	Gross maximum exposure 2007 KD'000
Cash and cash equivalents (excluding cash on hand)	10	61,868	44,262
Short-term Murabaha and other Islamic financing	11	260,950	307,040
Receivables	12	267,730	197,703
Leased assets	13	88,071	67,389
Financial assets held at fair value through profit or loss		44,097	9,702
Available for sale investments	14	58,181	56,258
Other assets (excluding software)	18	8,602	6,251
		789,499	688,605
Contingent liabilities		47,650	39,428
Commitments		56,718	17,112
Total credit risk exposure		893,867	745,145

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 detail 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 2008 was KD 28,794 thousand (31 December 2007: KD 50,000 thousand) before taking account of collateral or other credit enhancements, and KD 28,794 thousand (31 December 2007: KD 50,000 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:

	2008			2007		
	Banks KD'000	Non-banks KD'000	Total KD'000	Banks KD'000	Non-banks KD'000	Total KD'000
Kuwait and The Middle East	121,505	608,184	729,689	313,392	353,358	666,750
North America	-	1,414	1,414	108	-	108
Western Europe	45,025	9,966	54,991	1,689	10,603	12,292
Other	-	3,405	3,405	3,012	6,443	9,455
	166,530	622,969	789,499	318,201	370,404	688,605

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

	2008			2007		
	Banks KD'000	Non-banks KD'000	Total KD'000	Banks KD'000	Non-banks KD'000	Total KD'000
Trading and manufacturing	-	30,047	30,047	-	37,740	37,740
Banks and financial institutions	166,530	309,485	476,015	318,201	119,233	437,434
Construction and real estate	-	209,380	209,380	-	153,161	153,161
Other	-	74,057	74,057	-	60,270	60,270
	166,530	622,969	789,499	318,201	370,404	688,605

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

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Collateral and other credit enhancements (Continued)

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.

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 2008	Neither past due nor impaired			
	Banks KD'000	Non banks KD'000	Past due or impaired KD'000	Total KD'000
Cash and cash equivalents	1,021	60,847	-	61,868
Short-term Murabaha and other Islamic financing	119,403	135,547	6,000	260,950
Receivables	15,915	249,234	2,581	267,730
Leased assets	-	83,818	4,253	88,071
Financial assets held at fair value through profit or loss	22,851	21,246	-	44,097
Available for sale investments	1,340	56,841	-	58,181
Other assets	-	8,602	-	8,602
	160,530	616,135	12,834	789,499

Management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to reasonably approximate KD 4,210 thousand as at 31 December 2008 (31 December 2007: KD Nil).

31 December 2007	Neither past due nor impaired			
	Banks KD'000	Non banks KD'000	Past due or impaired KD'000	Total 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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

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

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

The Group is not exposed to 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.

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.

	2008		**2007**	
	Effect on operating profit KD'000	Effect on equity KD'000	Effect on operating profit KD'000	Effect on equity KD'000
US Dollar	(282)	(37)	(133)	103
Sterling Pound	16	16	65	65
Euro	119	119	86	86
Indonesian Rupiah	21	317	-	310

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

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

For such investments classified as available-for-sale, a five percent increase in stock prices as at 31 December 2008 would have increased equity by KD 519 thousand (31 December 2007: an increase of KD 544 thousand.) For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of KD 1,926 thousand (2007: KD 434 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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.

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

The following table summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

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

31 December 2008

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and cash equivalents	67,996	-	-	-	67,996
Short term Murabaha and other Islamic financing	260,950	-	-	-	260,950
Receivables	152,670	72,979	27,615	14,466	267,730
Leased assets	44,877	7,040	27,821	8,333	88,071
Financial assets held at fair value through profit or loss	-	-	-	44,097	44,097
Available for sale investments	38,122	-	-	20,059	58,181
Investments in associates	-	-	-	5,914	5,914
Trading properties	-	-	2,754	-	2,754
Investment properties	-	-	-	29,962	29,962
Other assets	6,269	-	-	3,650	9,919
Property and equipment	-	-	-	4,887	4,887
Total assets	570,884	80,019	58,190	131,368	840,461
Liabilities and Equity					
Due to banks	118,131	-	-	-	118,131
Depositors' accounts	478,366	71,445	17,979	1,846	569,636
Other liabilities	12,683	939	-	1,531	15,153
Equity	-	-	-	137,541	137,541
Total liabilities and equity	609,180	72,384	17,979	140,918	840,461

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

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

31 December 2007

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and cash equivalents	49,032	-	-	-	49,032
Short term Murabaha and 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

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

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

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

	2008 KD'000	2007 KD'000
Tier 1 capital		
Share capital	116,531	105,937
Share premium	280	280
Statutory reserve	3,913	3,709
Voluntary reserve	3,591	3,406
Retained earnings	13,250	22,387
Minority interests	2,393	2,303
	139,958	138,022
Tier 2 capital		
Fair value reserve	(798)	990
Foreign currency translation reserve	(1,619)	(733)
	(2,417)	257
Total regulatory capital	137,541	138,279
Risk-weighted assets	641,393	487,659
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21.44 %	28.35 %
Total tier 1 capital expressed as a percentage of risk-weighted assets	21.82 %	28.30 %

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31. FINANCIAL ASSETS AND LIABILITIES

Liquidity risk (Continued)

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

31 December 2008

	Designated as at fair value KD'000	Held for trading KD'000	Loans and receivables KD'000	Available for sale KD'000	Other amortized cost KD'000	Total carrying amount KD'000
Cash and cash equivalents	67,996	-	-	-	-	67,996
Short term Murabaha and other Islamic financing	-	-	260,950	-	-	260,950
Receivables	-	-	267,730	-	-	267,730
Leased assets	-	-	88,071	-	-	88,071
Financial assets held at fair value through profit or loss	40,547	3,550	-	-	-	44,097
Available for sale investments	-	-	-	58,181	-	58,181
	108,543	3,550	616,751	58,181	-	787,025
Due to banks	-	-	-	-	118,131	118,131
Depositors' accounts	-	-	-	-	569,636	569,636
	-	-	-	-	687,767	687,767
Income / (expenses)	14,139	(571)	38,270	2,229	(19,741)	34,326

31 December 2007

	Designated as at fair value KD'000	Held for trading KD'000	Loans and receivables KD'000	Available for sale KD'000	Other amortized cost KD'000	Total carrying amount KD'000
Cash and cash equivalents	21,939	-	27,093	-	-	49,032
Short term Murabaha and 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 / (expenses)	2,143	-	32,508	3,253	(19,071)	18,833

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank amounted to KD 91,893 thousand (31 December 2007: KD 249,521 thousand).

33. PROPOSED DIVIDEND

The board of directors recommended not to distribute any dividends for the year ended 31 December 2008 (10% on outstanding shares as at 31 December 2007). This board recommendation is subject to approval of the General Assemply shareholders.

34. COMPARATIVE FIGURES

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

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