Annual Report 2008

www.kfh.bh

Bringing Banking to Life

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

Kuwait Finance House - Bahrain

Annual Report 2008

Best New Product
Islamic Business & Finance Awards '07

Durrat Al Bahrain

Best Project Finance House
Banker Middle East Industry Awards '08

Corporate Finance

Best Retail Brand
World Islamic Banking Conference Awards

KFH Group

Best New Product
Islamic Business & Finance Awards '08

Priority Banking

CONTENTS

HH Shaikh Khalifa bin Salman Al Khalifa

Prime Minister

HM King Hamad bin Isa Al Khalifa

King of The Kingdom of Bahrain

HH Shaikh Salman bin Hamad Al Khalifa

Crown Prince, Deputy Supreme Commander

Bringing Banking to Life

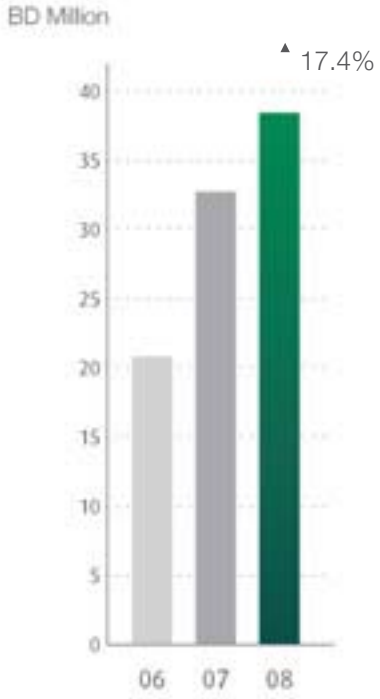
VISION

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

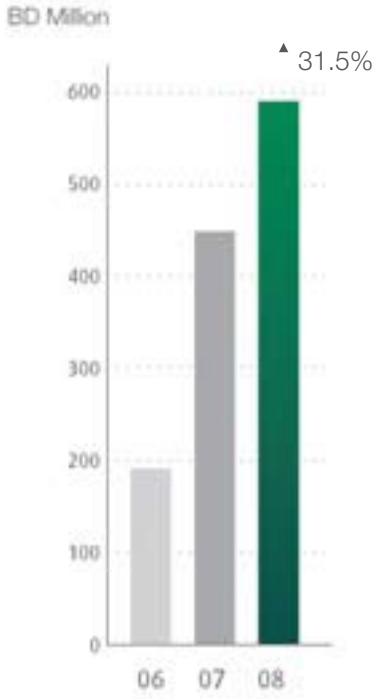
MISSION

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

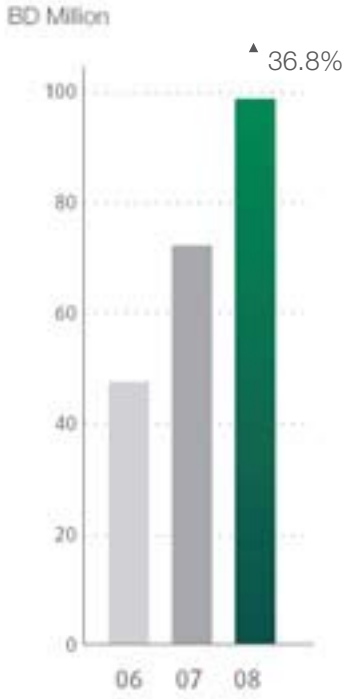
Kuwait / Bahrain / Malaysia / Jordan / Turkey / Singapore / Australia



Net Income

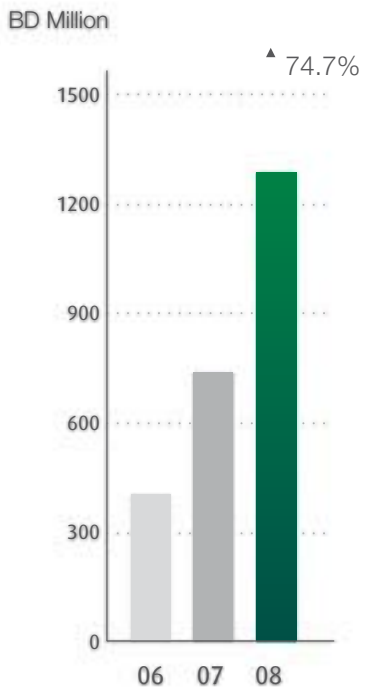


Customer Deposits



Operating Income

3 Year Highlights



Total Assets

PROFILE

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

KFH-Bahrain enjoys a reputation as a performance-driven, results-oriented institution, combining global investment strategies with the provision of popular retail products and services. KFH-Bahrain has made major advances and experienced considerable growth in the last few years, allowing it to further develop its products and services and provide outstanding investment opportunities for its clients. At the forefront of the investment and finance sectors, KFH-Bahrain has developed a series of successful projects and made further investments in diverse sectors of the economy.

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

Bader A. M. Mukhaizeem
Chairman

Chairman's Statement

The Bank posted an excellent performance in 2008, during which it achieved its targeted objectives, and maintained its reputation as a leading force in Islamic banking and finance.

Esteemed stakeholders and partners,

The global financial crisis has shown that there is a pressing need to reform the established global financial and economic system. In contrast, it has illustrated the resilience of KFH-Bahrain and the strength and efficiency of its procedures, ethics and methodologies, in dealing with customers in accordance with the tenets of the glorious Islamic Shari'a.

Despite the consequences of the global financial crisis on our local markets, there are ample opportunities arising from it, as long as efforts are concerted and forces are united under a clear shared vision.

KFH-Bahrain understands very well the role which it needs to shoulder in order to mitigate the effects of the global crisis on the national economy, particularly supporting companies requiring funding. The Bank is currently considering financing more companies in accordance with recognised credit rules and procedures, following diligent examination of their financial position and balance sheets.

Financial Results

KFH-Bahrain posted a strong performance during 2008. In particular, our financial results showed a marked improvement over those of 2007. For example, net income recorded a rise of 18 per cent to reach BD38.4 million, compared to BD32.7 million in the previous year, while total customer deposits stood at BD588.6 million, a growth rate of 32 per cent over 2007.

As a result, return on average equity was up 15 per cent, and total income rose by 37 per cent from BD72 million in 2007 to BD98.5 million in 2008. At the end of the year, total assets stood at BD1.3 billion, a rise of

75 per cent compared to 2007, while shareholders' equity rose by 108 per cent to BD 320.2 million. During the year, the Bank's paid up capital was increased from BD70.1 million to BD161.4 million, resulting in a further strengthening of the Bank's balance sheet. KFH-Bahrain enjoys a healthy liquidity level, with its cash placements with banks, in addition to its cash balances with the Central Bank of Bahrain, standing at BD69.8 million.

New Products and Services

Throughout 2008, we continued to implement our concept of "Bringing banking to Life", aimed at providing services and products that positively affect the quality of the lifestyle of our customers. Recently, we launched a number of innovative products and services which were well received by our customers. These include the first Islamic electronic-chip credit card; a unique programme to finance the purchase of houses extending over 25 years and KFH AutoMall, which is a one-stop shop service for the purchase, financing and insurance of cars. During the year, KFH-Bahrain also focused on improving and enhancing customer service, with future plans to upgrade the standards of the telephone banking service to a fully integrated call centre, and the introduction of Internet banking services. Other developments and improvements include the establishment of a new Debt Capital Markets unit.

Investments

Our results underline the prudent methodology used by the Bank in its activities and strategies focused on investment activities, and illustrate the foresight of the Board of Directors and the dedication of the management and staff, in successfully meeting the requirements and expectations of our clients. As a result, KFH-Bahrain is in a strong position to benefit from the new opportunities available in a selected array of sectors and geographic regions, and to face the challenges of 2009 and beyond.

In 2008, the Bank acquired the majority shareholding in Motherwell Bridge Limited, which is a UK-based sub-contractor specialising in oil and gas engineering, and with operations extending to Europe, the Middle East, West Africa and India. KFH-Bahrain also signed an agreement with the United Nations Industrial Development Organisation (UNIDO), which aims at developing investment opportunities and technology transfer in clean industries, renewable energies and industrial parks, on a global level.

The Bank also successfully launched the Diyar Al Muharraq project, which is considered one of the most significant new real estate development projects in the Kingdom of Bahrain, and continued the development of the landmark Durrat Al Bahrain project. KFH-Bahrain also announced the establishment of KFH-Jordan - an Islamic investment company in the Hashemite Kingdom of Jordan - with a capital of US$ 50 million.

Community Service

At KFH-Bahrain, we are fully conscious of the fact that we are an integral part of the local community. Accordingly, during 2008, the Bank continued to implement its comprehensive programme of corporate social responsibility, which comprises financial and practical support to a number of charitable, educational medical, cultural and sports institutions, social organisations, and deserving causes.

The Bank also participated in sponsoring a number of major initiatives and activities aimed at developing Islamic banking and finance, and enhancing the business and economic sectors of Bahrain.

Global Recognition

The achievements of KFH-Bahrain were recognised by the receipt of three prestigious industry awards during 2008. These were "Best Project Finance House Award" from the Banker Middle East, "Best Retail Brand Award" at the World Islamic Banking Conference, and "Best New Product Award" by CPI Financial.

I would like to take this opportunity to congratulate Mr. Abdulhakeem Alkhayyat on his appointment as a member of the Board, and his elevation to Managing Director and Chief Executive Officer of the Bank. I would like also to thank retiring Director, Mr. Mohamed Isa Alwazzan, for his contribution to the previous Board of Directors.

On this occasion, it is my honour to express my sincere thanks and gratitude to His Majesty, the King of the Kingdom of Bahrain; His Highness, the Prime Minister; and His Highness, the Crown Prince and Deputy Supreme Commander; for their wise guidance and leadership, visionary reform programme, and their continued encouragement and support for the Islamic banking industry. My thanks also go to the Central Bank of Bahrain and other government institutions and ministries, for the constructive advice and assistance they have extended to us during the year.

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

Bader Abdul Mohsin Mukhaizeem
Chairman

Abdulhakeem Y. Alkhayyat
Managing Director and CEO

Managing Director & CEO's Statement

I am pleased to report that, by the grace of Allah the Almighty, 2008 proved to be a very successful year for KFH-Bahrain. We remained true to our core values, met the objectives we set for ourselves and continued to develop the Bank in terms of its products, infrastructure and human capital.

Global financial crisis - poor banking practices

The global financial crisis was born out of a combination of the following poor banking practices:

Financing for sub-prime mortgages - banks providing credit to those who were not in a position to repay their loans;

Convoluted and over-leveraged finance structures - financing structures which were overly complicated and highly leveraged, of which investors did not fully understand the risk profile and did not realise that they were far removed from the benefit of any asset/collateral within such structures;

Management focused on short term profit in order to qualify for exorbitant bonuses - management incentives geared towards short term profit, which encouraged riskier investments with little or no consideration for the long term well being of the bank; and

Weak due diligence and a reliance on third party views - investment decisions based on poor due diligence with too much emphasis placed on third party views, such as ratings agencies, who were unable to provide advance notice of problems within the institutions they were rating.

Consequences of the global financial crisis

The global financial crisis deeply affected the world's banks and liquidity dried up as confidence eroded. The GCC countries and their economies were impacted and regional banks suffered as the global crisis saw various investment sectors hit hard. Banks were immediately faced with how to value the assets on their balance sheet in a world where traditional valuation methods no longer applied.

Islamic banks were affected by the consequences of the crisis but Islamic banking principles protected them against the extremes of the crisis.

Islamic banks were impacted by the consequences of the crisis as the sectors they invested in declined in value, especially the real estate sector and manufacturing. That said, Islamic retail banks appear to have been less affected by the crisis than their conventional counterparts and this, in my opinion, is due to the Islamic retail banks adhering to their Islamic principles, which protected the Islamic banks against the extremities of the crisis. The following are some of the key Islamic banking principles that have made the Islamic retail banks more resilient to the crisis:

Encouragement of repaying debts - Islamic retail banks are less exposed to the sub-prime aspect of the crisis as it is a basic principle of Islamic finance that credit is only provided to those who should be able to repay. The Holy Qur'an encourages the repayment of debts and refers to the taking of collateral to enhance the likelihood that a debt will be repaid [Surah 2 (Al Baqarah), Ayah 283]. At KFH-Bahrain, we have followed this principle and built a consumer and corporate financing portfolio that benefits from a high level of collateral. Despite the crisis, our delinquency rates remain at historical average levels.

Asset-based financing - sukuk - One of the key features of Islamic financing is the involvement of an asset - a real object that has a true and realisable value. Under Islamic principles, paper/money does not have value in itself. It is this feature which restricted many Islamic banks from investing in convoluted and overleveraged structures where the ultimate investor actually held little or no benefit in the underlying asset which was the subject of the original financing. In comparison, the Islamic financing technique of sukuk requires that the ultimate investor has a clear and direct recourse to the asset being financed with no over leveraging and/or complicated layers which obscure the true risk profile of the investment. The sukuks that KFH-Bahrain offers to investors and those in which it invests, are straightforward structures, providing the investor with unfettered recourse to the underlying asset which is typically worth a good deal more than the sums invested.

Avoiding uncertainty (gharrar) and speculation (maisir) - The Islamic principles of avoiding uncertainty (gharrar) and speculation (maisir) have protected Islamic banks from being involved in overly complicated and risky financing structures, such as derivatives and credit default swaps, where the ultimate investors are not fully aware of the true extent of the risks they are taking. KFH-Bahrain prides itself on its transparent and clear approach to the transactions it enters into.

The above mentioned principles go some way to explaining the resilience of Islamic retail banks and KFH-Bahrain to the crisis and shows further validation of the Islamic banking model, which not only serves as a method of conducting business, but also as a way of assisting the development of society, be it financing national infrastructure projects, supporting small, medium and large businesses, or financing the purchase of a family home.

I would like to take this opportunity to recognise the Bank's account holders, upon which the Islamic banking model is supported. The account holders' decision to place their funds with an Islamic bank is more than just a

deposit of money for safe-keeping and a return. For a great many of the account holders it is a religious obligation to utilise their money as prescribed by the Holy Qur'an and the Prophet Muhammed (Peace and Blessings be upon Him). In return, the account holder participates in the profitability of the Bank, while the level of profit due to the account holder depends on his/her risk appetite and the Bank's determination as to whether such an account holder has the capacity to assume risk. The account holder should also feel comforted that the venture he/she is participating in is actively seeking to improve society - which is all the more satisfying when you consider the social improvements Islamic banking brings to developing economies.

Indeed, I would like to go further and thank the Bank's account holders for their continued confidence in Islamic banking and KFH-Bahrain and that, by the grace of Allah the Almighty, we will continue to manage the Bank in accordance with our Islamic principles, which we pray will ensure that we remain successful for the benefit of the account holders, the Bank and its shareholders and employees, and society in general.

Although we feel that our Islamic principles have afforded us with protection from the extremities of the global economic crisis, we will not be complacent and whilst we will continue to finance large-scale projects, businesses, small and large enterpises, and families for their housing and other needs, we will do so on the basis of prudence and sound banking practice.

Looking now to the Bank's achievements in 2008, I am very pleased to report that by all metrics, we saw a significant improvement. Our net income, our deposit base, our total assets, shareholders' equity and earnings per share, all recorded significant increases.

We expanded our ATM network, upgraded our customer service and generally enhanced our standing as a leading Islamic bank.

We also made excellent progress with our investments in Bahrain's flagship mega real estate projects - Durrat Al Bahrain, Diyar Al Muharraq and Ishbiliya Village - which we believe illustrates our commitment to developing the country's infrastructure and the quality of life of the country's citizens.

In addition, we worked hard on improving our institutional infrastructure, notably, the Bank's analysis and handling of risk, IT systems and applications, HR, compliance and adherence to policies and procedures. I am confident that these measures will mean that the Bank is well placed to manage any further economic shocks and capitalise on investment opportunities.

In conclusion, I would like to express my sincere thanks and gratitude to the Bank's board of directors, who have provided invaluable wisdom, guidance and support throughout the year; the Bank's employees for their dedication, hard work and commitment; and the Bank's account holders and investors, who have shown continued confidence in the bank.

Abdulhakeem Yacoob Alkhayyat
Managing Director & CEO

Board of Directors

Bader A. M. Mukhaizeem
Chairman

Mohammed bin Sh. Eshaq
Vice Chairman

Mohammed Sulaiman Al Omar
Board Member

Abdulhakeem Y. Alkhayyat
Managing Director & CEO

Yaqoob Yousef Majed
Board Member

Adel Ahmed Al Banwan
Board Member

Management Team

EXECUTIVE MANAGEMENT

Abdul Razak Jawahery
Executive Manager

Ahmad Saeed
Executive Manager

Khalid Al Maarafi
Executive Manager

DEPARTMENT SENIOR MANAGERS

Hisham Al-Moayyed
Senior Manager - Real Estate

Jalal Haji Jassim
Senior Manager - Operations

Lilian Le Falher
Executive Manager

Paul Mercer
Executive Manager

Sattam Algosaibi
Executive Manager

Mohammed Ali Hamad
Senior Manager - Internal Audit

Yousif Al-Hammadi
Senior Manager - Financial Control, Administration & Compliance

Isa Al Duwaishan
Shari'a Advisor




menatelecom



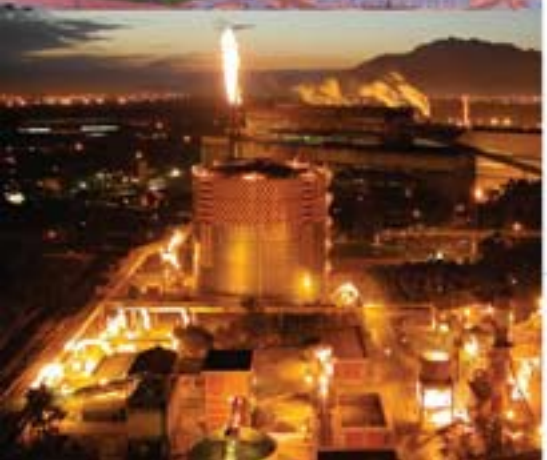








WIRELESS BROAD
WIRELES

Investment Portfolio

A specialised and well tailored investment strategy has contributed significantly towards sustained success of KFH-Bahrain in recent years. During the year, our highly experienced and professional investment team managed the current investments portfolio and continued to identify suitable investment opportunities for the Bank.

Investment Portfolio

Due to its robust investment strategies and prudent policies KFH-Bahrain has maintained its far-sightedness in identifying and selecting quality Shari'a compliant investments locally, regionally and globally. However, the Bank's investment portfolio has not been completely immune to the financial and economic crisis that has plagued the world and the investments have been affected to a varying degree. The Bank has selectively provided additional funding support in order to maximize expected exit values. Adequate fair value adjustments have been made against some of the investments.

In the year 2008, KFH-Bahrain has maintained its existing diversified portfolio of investments and has selectively acquired real estate for development, acquired corporate assets, invested in public equities and also made investments in selected private funds. During the year, major phases, including reclamation and construction work, of some of the existing large scale real estate projects have been completed. Furthermore, strides have been made to establish a specialized science and technological park and also to develop the existing equestrian sports facilities.

In June 2008, the investment department was reorganized into specialist units. The team was further augmented by the addition of highly trained, qualified and talented professionals which led to improved monitoring of the portfolio, closer interaction with the management of investee companies and enhanced returns through the implementation of suitable cost cutting measures and increased productivity and efficiency.

KFH-Bahrain continued its commitment to invest in the development of Bahrain through various infrastructure and related projects including Durrat Al Bahrain, Diyar Al Muharraq, Baytik Industrial Investments as well as through the launch of WiMAX operations by its wholly owned subsidiary Mena Telecom.

REAL ESTATE INVESTMENTS

KFH-Bahrain is continuously seeking opportunities in the real estate market as a developer as well as through joint ventures with strategic partners to acquire and develop projects in the Kingdom of Bahrain and the MENA region. KFH-Bahrain has a robust portfolio that includes Diyar Al Muharraq, Durrat al Bahrain, Ishbiliya Village and has several other projects in the pipeline at various stages.

CORPORATE INVESTMENTS

The Bank's strategy is to pursue private equity deals with mature and cash generative underlying businesses and committed and experienced management teams. The corporate investment plan will include companies with a clear competitive advantage or ability to create one in high-growth sectors predominantly within telecommunications, technology, healthcare, utilities and oil and gas industries.

Real Estate Investments

DIYAR AL MUHARRAQ

Country	Bahrain
Sector	Real Estate
Year of Acquisition	2006
Group Holding*	52.5%

Diyar Al Muharraq consists of a mix of residential, commercial and retail components for the medium to high net worth market. The project lies just off the coast of Muharraq, the northern island and historical city centre of the Kingdom of Bahrain, which is also in close proximity to the international airport. Diyar Al Muharraq will comprise a total area of 12.2 million square metres and, once completed, will be a self-contained city combining modern amenities with traditional design.

The development of the master plan for the Diyar Al Muharraq project passed an important milestone in 2008 with confirmation of compliance with the Bahrain National Plan for Development by the Urban Planning Unit of the Ministry of Municipalities & Agriculture.

Stage 1 marine works construction is ahead of schedule, with dredging, reclamation and shore protection works nearing 80 percent completion, forming some 3,800,000 square metres of land. As a result, construction of the public beach area on the Southern Island is practically complete, and Diyar is formulating an access strategy to provide safe public access by summer 2010.

www.diyar.bh

*Includes investors.

DURRAT AL BAHRAIN

Country	Bahrain
Sector	Real Estate
Year of Acquisition	2003
Group Holding*	50%

The flagship of the KFH-Bahrain investment portfolio is the Durrat Al Bahrain project, a world-class residential, leisure, commercial and tourist destination. Durrat Al Bahrain is owned by the Durrat Khaleej Al Bahrain Company, in which the Government of the Kingdom of Bahrain and KFH-Bahrain (together with its investors) each hold an equal stake. Once complete, Durrat Al Bahrain, a 20 square-kilometre area of pristine waters and untouched beaches, is expected to be approximately the size of Manama, Bahrain's capital city.

In 2008, infrastructure works and villa construction progressed rapidly. Villas will be handed over to buyers during 2009.

The landscape has been transformed and is most apparent from a thousand miles above the site, where the 12 islands of Durrat Al Bahrain have created a breathtaking landmark for the Kingdom's south east coast. All of the five Petal Islands and the six Atoll Islands, along with the Hotel Island, now prominently dot the south territorial seas.

Once completed, Durrat's 60,000 residents and an estimated 4,500 visitors daily, will be able to hop from point to point within the island via ultra-modern roads and bridges. The highway that offers a fast link from Manama city to the resort opened to traffic during 2007. The development of a world-class championship golf course is also underway. The concept master plan has been developed by world famous golfer Ernie Els, and is among his few signature courses.

During 2008, Durrat Al Bahrain entered into a 50-50 joint venture with Al Tijaria (Commercial Real Estate Company) to develop Atolls 5 and 6.

Durrat Al Bahrain continued its marketing activities during the year to promote the landmark project, with participation in a number of major regional and international real estate and property exhibitions.

www.durratbahrain.com

*Includes investors.

ISHBILIYA VILLAGE

Country	Bahrain
Sector	Real Estate
Year of Acquisition	2005
Group Holding*	100%

Situated on a large plot of land in a prime location in the Al Qadam area of Bahrain, Ishbiliya Village is a premier residential development targeted for the middle to high income market. The project development team is led by Al Enma'a House for Real Estate.

Ishbiliya Village offers high quality housing at affordable prices to the fast growing local population, providing this market segment with a new lifestyle of choice in a fully master planned community. The project, which is close to Manama City Centre, will feature 243 villas and 500 apartments of varying sizes alongside high class commercial and leisure facilities, and community essentials such as schools, parks and a mosque, supported by a modern infrastructure.

The project is now in the development and construction phase, with all the building permits having been obtained. Construction of villas is expected to be completed in early 2010.

SEEF PROPERTIES B.S.C

Country	Bahrain
Sector	Real Estate
Year of Acquisition	2007
Group Holding	15.6%

Seef Properties is a leading property development and management company in the Kingdom of Bahrain. Its signature asset is Seef Mall, which is one of the most successful and popular shopping malls in Bahrain. KFH-Bahrain invested in Seef Properties B.S.C. through an IPO in 2007, with a subsequent listing on the Bahrain Stock Exchange in July 2007.

The Company is planning further expansion and undertaking new projects within Bahrain, based on its strong brand recognition and experience in the real estate sector.

*Includes investors.

BAYTIK INDUSTRIAL OASIS

Country	Bahrain
Sector	Industrial Real Estate
Year of Acquisition	2007
Group Holding	100%

Baytik Industrial Oasis ("BIO") is the first private industrial park in Bahrain, a model that will surely be replicated across the region. The Oasis project is expected to bring more than $200 million of foreign direct investment into Bahrain and create more than 2,000 industrial and related job opportunities over the next few years.

The first phase will cover almost 117,400m² comprising 24 advanced factory units ranging from 2,100 square meters to 2,400 square meters available for leasing. The purpose-built, high-tech factory units are pre-engineered and will be located in a green and lavishly landscaped environment. Phase two will cover 37,000m² and a multi-storey building to be designated the Knowledge Base Building, will provide state-of-the-art office space.

BIO is the largest project in the Bahrain International Investment Park (BIIP), a landmark high-technology development positioned as a location for quality foreign direct investment and export orientated domestic products with special custom services able to compete effectively in the global market.

www.bio.bh

AL ENMA'A HOUSE FOR REAL ESTATE B.S.C (C)

Country	Bahrain
Sector	Real Estate
Year of Acquisition	2003
Group Holding	59.3%

Established in 2003, Al Enma'a House for Real Estate B.S.C. is one of the largest privately held real estate developers in Bahrain in terms of both capital and projects in hand.

The company focuses on the development of unique residential and commercial properties, developing innovative housing solutions that cater for various community needs, as well as mega project management, and real estate management and logistics.

Building on its continued success, the company is taking further steps to realise the full potential of leadership towards developing innovative and highly diversified properties in the main market segments - residential, commercial and industrial.

www.enmahouse.com

Corporate Investments

CANTERBURY OF NEW ZEALAND

CANTERBURY

Country	New Zealand / UK
Sector	Apparel
Year of Acquisition	2004
Group Holding*	60%

Canterbury, the world's leading rugby apparel brand, was established in Christchurch, New Zealand, in 1904. From a small regional rugby brand, Canterbury is being transformed to a globally renowned sports apparel manufacturer, producing a wide range of clothing for both on and off the field. The Canterbury logo can now be seen in department stores all around the world and on sports teams' jerseys in the most famous sports. The company is constantly keeping an eye out for further opportunities to successfully increase its market share.

Largely due to the reputation Canterbury built as a sports technology company with BaseLayer, Canterbury was able to become an exclusive kit supplier to Portsmouth FC, one of the football clubs in the English Premiership. Through its ties with Portsmouth FC, Canterbury has signed a franchise agreement to roll out its own brand stores across the UK, and successfully launched its first Canterbury store in October 2008, which is located in the new Westfield Mall in West London. This is the largest city centre mall in Europe, and features Louis Vuitton, Prada, Gucci and other premium brands.

Canterbury continues to make progress on the sales front, product development, and brand image building.

www.canterburynz.com

*Includes New Zealand Australia Private Equity Fund investment.

WOOSH WIRELESS

Country	New Zealand
Sector	Telecommunications
Year of Acquisition	2004
Group Holding*	53%

Woosh is a wireless broadband telecommunications company targeting the home and small office market. Its technology, which is manufactured by IP Wireless of the United States, enables it to be the lowest-cost provider of broadband in New Zealand.

In 2008 the company's customer base was maintained at approximately 32,000.

The company emerged as one of the successful bidders in the spectrum auction which was held in New Zealand towards the end of 2007. Woosh has taken a strategic business decision to deploy a WiMAX network and is in the process of exploring opportunities for the execution of this strategy.

www.woosh.com

*Includes New Zealand Australia Private Equity Fund investment.

MENATELECOM

Country	Bahrain
Sector	Telecommunications
Year of Acquisition	2003
Group Holding	100%

Mena Telecom is a licensed telecommunications company formed in 2003 and based in the Kingdom of Bahrain. The Company aims to provide Bahrain with high quality yet affordable telecommunications services, enabling every segment of Bahraini society to participate in the rapidly evolving information and communications market and the e-Business revolution.

Mena Telecom has chosen Motorola as its technology partner to deploy state-of-the-art WiMAX technology for its wireless access network. The company has made significant investments in the design, construction and operation of its nationwide wireless network. Furthermore, the company has invested in improvements to its facilities, platforms and retail outlets, transforming itself into to becoming a premier telecommunication company.

In November 2008, Mena Telecom successfully launched a range of broadband services to both corporate and retail customers.

www.menatelecom.com

RADIUS HEALTH GROUP

Country	New Zealand
Sector	Healthcare
Year of Acquisition	2004
Group Holding*	63%

Radius Health Group is a fully integrated diversified healthcare service provider that runs under the "Circle of Care" methodology. The Radius Circle of Care covers every possible facet of health and life care for New Zealanders, including medical centres, pharmacies and residential rest homes.

It operates under a simple philosophy: "We provide the means for you to live your life the way you choose." The company has experienced a steady progress in expanding its portfolio of healthcare facilities which, combined with various business restructuring initiatives during 2008, resulted in enhancing shareholder value.

The company, of which KFH-Bahrain and its associate New Zealand Australia Private Equity Fund (NZAPEF) together own a 63 percent equity holding, is poised to become one of the most recognised names in the New Zealand healthcare sector.

www.radiushealth.co.nz

*Includes New Zealand Australia Private Equity Fund investment.

MIRACLE GRAPHICS

Country	Bahrain
Sector	Design & Printing
Year of Acquisition	2003
Group Holding	70%

Established in 1993 as Bahrain's first independent reprographic and pre-press production house, Miracle Graphics is an art company engaged in the areas of graphic design, publishing, print production and digital technology. In Bahrain it was a pioneer in the provision of reprographic and pre-press production services. In addition to its core service offerings, Miracle has a strategic partnership with Corporate Edge, a leading UK brand consultancy, for the provision of brand consultancy services.

Since its acquisition by KFH-Bahrain in 2003 with a holding of 70 percent, the company has seen stable growth in its revenues and operating performance. Miracle Graphics successfully managed the launch of Mena Telecom's WiMax brand during 2008.

www.miracle.com.bh

NEXTWINDOW

Country	New Zealand
Sector	Technology
Year of Acquisition	2005
Group Holding*	66.5%

NextWindow is a leading designer and developer of optical touch screens, manufacturing touch sensitive overlays for existing LCD or plasma displays and OEM touch assemblies for integration into manufacturers' display models. Touch screen technology is widely used by leading companies around the world across a wide range of industries, including telecommunications, tourism, retail, real estate and public information. Its many applications include digital signage, directory information and way-finding, wildlife exhibits, retail displays, digital whiteboards, interactive education, trade shows and real estate advertising.

NextWindow has signed major contracts in the volume markets and is now in mass production through a contract manufacturer in Thailand. One of the company's notable clients is global PC manufacturer, Hewlett Packard (HP). During 2008, NextWindow entered into significant business relationships with various new customers, further expanding its client base.

www.nextwindow.com

*Includes New Zealand Australia Private Equity Fund investment.

ENERGY CENTRAL COMPANY B.S.C (ECCO)

Country	Bahrain
Sector	Utility Services
Year of Acquisition	2005
Group Holding	33.5%

Ever since it was incorporated in 2005, Energy Central Company (ECCO) has been pursuing its business model to establish itself as major provider of utility services such as District Cooling, Waste Water Treatment, Sea Water Desalination and Power Generation, be it on a single or multi utility basis. ECCO's name in the region is starting to resonate especially with the significant progress of several Real Estate projects in which ECCO is a service provider.

The GCC is considered to be the target market for ECCO with a specific focus on Bahrain, Saudi Arabia, UAE and Kuwait. Through its subsidiaries such as Energy Central Utilities (ECU), ECCO has serviced the irrigation and drinking water desalination concession for real estate projects such as Durrat Al Bahrain, which is due to be handed over in early 2009. ECU provides the finance, design, construction and maintenance of the Durrat Al Bahrain Water Desalination scheme.

ECCO also provides special technical support to the Zamil Industrial Investment Company, a key shareholder based in Saudi Arabia, in their long-term energy performance contract with the Saudi Basic Industries Corporation (SABIC). This is to provide complete outsourcing of process and comfort cooling at the Saudi Iron & Steel Company (Hadeed), a wholly owned subsidiary of SABIC.

BAYTIK INDUSTRIAL INVESTMENTS

Country	Bahrain
Sector	Industrial Projects
Year of Acquisition	2007
Group Holding	100%

Baytik Industrial Investments (BII) represents the industrial arm of KFH-Bahrain, and seeks acquisitions, startup projects and strategic investments in public and private sector companies within MENA region. Outside this region, BII aims to be involved in acquisitions of existing companies in lower risk businesses and mature markets.

BII's mission is to develop an industrial investment company which will provide consistent and superior investment opportunities and returns for its shareholders and investment customers, through investing in best class industrial and service businesses and projects in the region, and within selected global markets.

The company is currently in the process of executing a number of projects, and reviewing several potential opportunities.

KFH-JORDAN

Country	Jordan
Sector	Investment banking
Year of Acquisition	2007
Group Holding	100%

KFH-Bahrain has established an investment company in Jordan - Kuwait Finance House (Jordan), in 2007. With an authorised share capital of US $65 million, KFH-Jordan is a wholly owned subsidiary of KFH-Bahrain.

KFH-Jordan operates under the regulatory supervision of the Hashemite Kingdom of Jordan, and conducts investment banking activities including investment advisory, acquisitions, and the development of opportunistic investments. It also invests in private equity in key market industries and plans to become a key player in the Jordanian financial market.

During 2008, the paid-up capital of KFH-Jordan was increased to US$ 65 million, and the Company commenced its investment activities by undertaking five real estate developments with a total value of US$ 100 million. KFH-Jordan also subscribed to 15 percent of the capital of the Islamic Financial Training Institute, which has the aim of becoming the leading training provider for Islamic financial institutions in the Arab world.

TURKAPITAL HOLDINGS BSC(C)

Country	Bahrain
Sector	Investment
Year of Acquisition	2007
Group Holding*	100%

Turkapital Holdings was incorporated during the third quarter of 2007 in the Kingdom of Bahrain, with a capital of US$ 150 million, for the purpose of investing in government and non-government related projects, with a focus on Turkey and other emerging countries in the region.

The company's current and targeted projects cover real estate, building materials, healthcare, financial services, transport and infrastructure, energy, oil and gas, and technology. It currently has representative offices in both Istanbul and Kuwait.

MOTHERWELL BRIDGE LIMITED

Country	UK
Sector	Oil, gas, and petrochemicals
Year of Acquisition	2008
Group Holding	85%

In 2008, KFH-Bahrain acquired an 85 percent stake in Motherwell Bridge, a specialist oil and gas sub-contractor based in Scotland, UK. Founded over 100 years ago, the company has a long association with the Middle East, having worked on many major oil, gas and petrochemical projects, and has a representative office in Abu Dhabi, UAE.

Motherwell Bridge specialises in the design, engineering, construction management and manpower management of engineering projects principally in the oil, gas, petrochemical and steel industries. The company delivers its product offering through five key divisions: Storage Tank Projects, Turnarounds & Maintenance, Heat Exchangers, Clayton Walker Gasholders, and Plastics. In particular, its specialist expertise in the large storage tank sector provides a strong platform for further growth in the region.

As well as the UK and the Middle East, Motherwell Bridge is active in West Africa, India and Ukraine. These international markets represent a significant growth opportunity for the business.

www.mbgroup.com

*Includes investors' and parent company holding.

Consumer Banking

The consumer banking and finance services provided by KFH-Bahrain combine a broad range of innovative products and services with exceptional customer care. Our products and financing facilities are developed with the aim of providing for the long-term needs of customers and those of the local market, which continue to increase. Thinking innovatively, and ultimately seeking to deliver superior products, remains at the core of all we do.

KFH-Bahrain acts as a 'one-stop shop' for our customers' banking and financing requirements through our growing network of bank branches and ATMs. The number of branches is set to increase from six to nine, with the World Trade Centre, Exhibition Road and Busaiteen among the new locations. The ATM network will almost double, with new machines being installed in major residential, financial and shopping districts bringing the total to 30.

New services and innovative products are constantly being introduced for the benefit of customers. These range from technology and service enhancements that provide greater access to information and funds - both locally and worldwide - to the launch of the never before seen products. The Baytik Ijara card, the world's first Islamic financing card that allows cardholders to acquire durable goods on a lease-to-own basis, is one such product. A unique 25-year home financing scheme is another example of how product innovation and technological enhancement are helping KFH-Bahrain set the standard for consumer finance.

During 2008, KFH-Bahrain also focused on further enhancing customer service. Plans include upgrading the Telebanking service to a fully fledged Contact Centre.

The first Islamic chipped credit card, a Shari'a compliant offering with many benefits, introduced in 2007 in association with Visa, was enthusiastically received, with the initial take-up proving to be greater than expected. Customers enjoy a revolving credit facility without incurring interest costs, paying a low annual service charge instead.

Likewise, KFH AutoMall, which was officially opened in 2007, enjoyed a successful first full year of operations. As well as being the Kingdom's largest car showroom housing the widest range of car brands, KFH AutoMall provides customers with a 'one-stop-shop' for financing and insurance. The second Automall branch is scheduled to open in 2009 to serve customers in the heart of the capital, Manama.

Corporate Finance

KFH-Bahrain's Corporate Finance division helps companies who are looking for effective ways to grow their operations through Shari'a compliant resources and strategies. Our clients benefit from a combination of excellent service and solid expert advice.

Among the services available to businesses across all industry sectors are:

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

The Bank offers a broad range of Shari'a compliant financing instruments including Murabaha, Ijara and Istisna'a, as well as Commodity and Convertible Murabaha facilities. All transactions are handled by our experienced Corporate Finance team to ensure the best possible results.

We advise and provide financing on a wide range of projects in both the private and public sectors. In line with our mission to support growth in the local and regional markets, the Corporate Finance team closely evaluates compelling opportunities and promising projects and helps to bring them to fruition.

Our vision and expertise support the development of entrepreneurial companies, helping them maximise their business potential.

Assets & Liabilities Management

TREASURY AND STRUCTURED PRODUCTS

Despite the challenges posed by the global financial crisis and resultant global credit and liquidity crunch, the Treasury department continued to ensure strong liquidity management for the Bank during 2008. A strategic decision was made by members of the KFH Group that saw Group members (including the Bank) increase intra-group lending as the effects of the global financial crisis spread to the region. Parallel to this decision, the Bank reinforced its credit risk policy.

While the distress in the financial markets took much of its attention, the Treasury department did not lose sight of its mission to develop and provide Shari'a-compliant structured products and investment solutions for financial institutions as well as corporate and institutional investors. An Islamic hedging tool, developed in late 2008, will be available in 2009. FX trading will become more of a focus in what will likely remain a highly volatile economic climate. In the coming year, the Treasury department will seek to broaden its offerings while continuing to develop products in the fields of money market, long term investment funds and asset-backed securities.

DEBT CAPITAL MARKETS (DCM) & SYNDICATION

The DCM unit was established in late 2008 to consolidate the Bank's syndication and capital markets portfolio under one umbrella. The DCM unit provides an integrated platform of origination, structuring and syndication services for all types of issuers - large corporates, financial institutions, Takaful companies, sovereign/local authorities, public bodies and supranational institutions. In 2008, the unit participated at a senior level on a number of deals including asset finance transactions involving aircraft and vessels. Despite the distress in the global capital markets, the unit is confident it will be in a strong position to identify and win mandates from quality issuers, and already has an impressive pipeline of deals for 2009.

As always, the primary focus of DCM is, and will continue to be, to secure quality transactions that fall within the Bank's overall framework of sound credit and lending strategy. DCM will also continue to seek to diversify the asset classes in which it invests, and the corporate profile of the issuers it advises, to ensure sound risk allocation and management.

Risk Management

At KFH-Bahrain we believe in the proactive management of risk throughout the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank.

The Bank's risk strategy, backed by appropriate limit structures, is articulated through the Risk Charter and Capital Management policy. These documents provide an enterprise-wide integrated risk management framework for KFH-Bahrain. The Risk Charter identifies risk objectives, policies, strategies and risk governance structure both at the Board and the management level. The Capital Management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify not just the regulatory capital, but also the economic capital allocated to various portfolios.

Banks, generally, are exposed to various types of risk, such as market, credit, rate of return, liquidity and operational, all of which require comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight and control; risk culture and ownership; risk recognition and assessment; adequate information and communication channels; monitoring risk management activities; and correcting deficiencies.

In line with its risk strategy, the Bank has recently taken appropriate steps to reinforce the culture of risk management across its various business activities. These include the formation of a Risk and Governance Committee - a Board level committee with the mandate to set policy on all risk and governance issues, and maintain oversight of all Bank risks and governance aspects through different senior management committees.

KFH-Bahrain proactively identifies, measures, monitors and manages risks through established processes. These include: a risk governance structure with clearly established responsibilities at each level; well defined risk management policies and procedures; the implementation of sophisticated risk systems for Basel II; the setting of limits for various types of risks according to tolerance levels defined by the Board; and continuous assessment by Internal Audit of the overall effectiveness of risk policies.

During 2008, the Bank continued to build upon the many initiatives taken in the previous year, which provided the basic building blocks for an effective Risk Management framework in line with industry best practice.

Corporate Governance

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

KFH-Bahrain has established a robust organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, the Management, Managing Director and Chief Executive Officer, and Management Committees.

Responsibilities

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with KFH-Bahrain's shareholders.

Code of Conduct

The Bank has developed a Code of Conduct that governs the professional and personal behaviour of the directors, management and staff.

Compliance

KFH-Bahrain recognises that compliance with regulatory and statutory provisions is of paramount importance. The Bank has a Compliance Unit which acts as a focal point for implementing local regulatory and statutory requirements. The Board of Directors has the overall responsibility for ensuring that all activities of KFH-Bahrain are conducted in accordance and in full compliance with applicable laws and regulations.

Disclosures

A disclosure policy has been developed as part of the Bank's commitment to adopting the highest standards of transparency and fairness in disclosing information for the benefit of all stakeholders. KFH-Bahrain is committed to disclosing information to the public in a manner consistent with guidelines provided by the Central Bank of Bahrain, and in line with Basel II Pillar III requirements.

Anti-money Laundering

KFH-Bahrain has adopted detailed policies and procedures in line with the Central Bank of Bahrain's directives to combat money laundering and other financial crimes. It is a firm policy of the Bank not to allow itself to be directly or indirectly used by any elements for unlawful activities.

Corporate Communications Policy

The Bank maintains an effective communications policy that enables both the Board and Management to communicate effectively with its shareholders, stakeholders and the general public. Main communications channels include the annual staff meeting, annual report, corporate website and corporate brochure, and regular announcements in the appropriate local press.

Corporate Social Responsibility

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

Throughout 2008, KFH-Bahrain continued to implement its comprehensive corporate social responsibility (CSR) programme comprising financial and practical support for numerous charitable, educational, medical, cultural, sporting and social organisations, and deserving causes. The Bank also participated in and sponsored a number of major initiatives and events aimed at supporting Islamic banking and finance, and promoting business and economic development. Some examples of our diverse CSR activities during the year are listed below.

Developing Tomorrow's Sporting Champions

- Sponsored the Bahrain Athletics Association's Talent Identification programme, designed to discover and develop students with potential and ability.
- Sponsored the participation of the Bahrain Swimming Association's team in the 2008 GCC Water Sports Championship.
- Sponsored the Bahrain Boys Tennis Circuit, an initiative of the Bahrain Tennis Federation, which aims to nurture the potential of young tennis players.

Supporting Islamic Banking And Finance

- Platinum Sponsor of the 2008 World Islamic Banking Conference European Summit in London, UK.
- Platinum Strategic Sponsor of the 15th Annual World Islamic Banking Conference in Bahrain.
- Diamond Sponsor of the 5th Islamic Financial Services Board Summit in Jordan.
- Gold Sponsor of the 7th Conference of Shari'a Supervisory Boards of Islamic Financial Institutions in Bahrain.
- Platinum Sponsor of the Annual Conference of the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) in Bahrain.

Promoting Business And Economic Development

- Elite Sponsor of the Crans Montana Forum - Central Europe & Eastern New Economies Strategies with the Middle East - in Bahrain.
- Gold Sponsor of the National Conference on Gender Mainstreaming in Bahrain, organised by the Supreme Council for Women, aimed at increasing female participation in the Kingdom's economic development.
- Prime Sponsor of the 3rd Marketing & Management Forum for Banks and Financial Institutions, organised by the Human Investment Corporation in collaboration with the Arab Academy for Financial and Banking Sciences, and the Union of American Banks.
- Supported and participated in the 2008 Bahrain World Economic Summit.

Shari'a Board Statement

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

To the Stakeholders of KFH-Bahrain

Assalam Alaikum Wa Rahmatullah

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by KFH-Bahrain during the period ended 31 December 2008. We have also conducted our review to form an opinion as to whether KFH-Bahrain has complied with Shari'a Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

We conducted our review, to the Shari'a Advisor and his assistants, which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by KFH-Bahrain.

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

In our opinion:

a) The contracts, transactions, and dealings entered into by KFH-Bahrain during the year ended 31 December 2008 that we have reviewed are in compliance with the Shari'a Rules and Principles;

b) The allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'a Rules and Principles;

c) All earnings that have been realised from sources or by means prohibited by Shari'a Rules and Principles, have been disposed of to charitable causes; and

d) The calculation of Zakat is in compliance with Shari'a Rules and Principles.

This opinion is rendered based on what has been presented to us by KFH-Bahrain's Managing Director and CEO, and its in-house Shari'a Advisor. We would like to thank the management for its acceptance and compliance to the Shari'a principles and guidelines. We pray to Allah the Almighty to grant us success and the path of straightforwardness.

Wassalam Alaikum Wa Rahmatullah Wa Barakatuh.

Ahmad Bazie Al-Yaseen
Chairman

Ajeel Jasem Al-Nashmi
Member

Mohammed Fawzi Faidullah
Member

Anwar Shuaib Abdulsalam
Member

Khalid Mathkour Al-Mathkour
Member

Mohammed Abdul Razaq Al-Tabtabaee
Member

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Kuwait Finance House (Bahrain) B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the consolidated statement of restricted investment accounts for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, to operate in accordance with Islamic Shari'a, and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, 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 Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, 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.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2008 which might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

Ernst + Young

3 February 2009
Manama, Kingdom of Bahrain

Financial Statement

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 BD 000s	2007 BD 000s
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	7	**69,791**	23,640
Murabaha due from banks	8	**64,421**	80,685
Financing contracts with customers	9	**578,482**	276,061
Investments	10	**204,643**	141,872
Investment in associates	11	**71,180**	41,356
Investment properties	12	**124,984**	105,097
Receivables, prepayments and other assets	13	**97,776**	40,658
Goodwill and intangibles	14	**10,599**	6,927
Premises and equipment		**31,409**	18,995
		1,253,285	735,291
Assets of disposal group classified as held for sale	15	**31,390**	-
TOTAL ASSETS		**1,284,675**	735,291
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Murabaha and due to banks		**301,452**	77,329
Murabaha contracts with non-banks		**224,880**	287,269
Customers' current accounts		**53,236**	107,150
Other liabilities	17	**26,268**	46,191
		605,836	517,939
Liabilities directly associated with disposal group classified as held for sale	15	**19,532**	-
Total liabilities excluding unrestricted investment accounts		**625,368**	517,939
Unrestricted investment accounts		**310,474**	53,091
Total liabilities including unrestricted investment accounts		**935,842**	571,030
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT			
Share capital	19	**161,036**	70,016
Share premium	19	**71,403**	15,040
Statutory reserve	20	**11,807**	8,238
General reserve	19	**27,596**	20,173
Investment revaluation reserve		**32,995**	22,390
Foreign currency translation reserve		**(1,383)**	-
Retained earnings		**16,743**	17,925
		320,197	153,782
MINORITY INTEREST		**26,997**	10,479
MINORITY INTEREST IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	**15**	**1,639**	-
		348,833	164,261
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**1,284,675**	735,291
RESTRICTED INVESTMENT ACCOUNTS		**93,269**	66,066
COMMITMENTS AND CONTINGENT ITEMS	21	**198,017**	59,372

Bader Abdul Muhsen Al-Mukhaizeem
Chairman

Mohammed AlShaikh Ishaq
Vice Chaiman

Abdulhakeem Yaqoub Alkhayyat
Managing Director and Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2008

	Notes	2008 BD 000s	2007 BD 000s
Income from retail and corporate banking activities	22	**38,664**	26,304
Income from investment activities	23	**30,428**	29,467
Share of income of associates	11	**21,034**	14,173
Other income		**8,386**	2,049
		98,512	71,993
Less: Profit on Murabaha due to banks and non-banks		**14,870**	14,639
		83,642	57,354
Staff costs	25	**10,848**	8,106
Depreciation		**3,519**	1,871
Provisions	26	**8,453**	3,233
Other operating expenses	27	**12,523**	9,812
		35,343	23,022
NET INCOME BEFORE PROFIT ON UNRESTRICTED INVESTMENT ACCOUNTS		**48,299**	34,332
Less: Profit on unrestricted investment accounts		**9,865**	1,662
NET INCOME FOR THE YEAR		**38,434**	32,670
Attributable to:			
Shareholders of the Parent		**35,686**	31,399
Minority interest		**2,748**	1,271
		38,434	32,670

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

	Notes	2008 BD 000s	2007 BD 000s
OPERATING ACTIVITIES			
Net income for the year		**38,434**	32,670
Adjustments for:			
Provisions		**8,453**	3,233
Depreciation		**3,519**	1,871
Amortisation	14	**58**	31
(Gain) / loss on sale of investment properties	23	**(2,026)**	(2,736)
(Gain) / loss on sale of investments	23	**302**	(1,305)
Share of income of associates	11	**(21,034)**	(14,173)
Unrealised gain on investments	23	**(9,783)**	(7,147)
Unrealised gain on investment properties	23	**(9,220)**	(9,625)
Operating income before changes in operating assets and liabilities		**8,703**	2,819
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank of Bahrain		**(19,909)**	(6,100)
Murabaha due from banks		**-**	4,408
Financing contracts with customers		**(305,942)**	(124,089)
Receivables, prepayments and other assets		**(28,760)**	(24,022)
Murabahas and due to banks		**224,123**	(26,135)
Murabaha due to non-banks		**(65,002)**	169,686
Customers' current accounts		**(53,914)**	61,455
Other liabilities		**984**	7,661
Net cash flows (used in) from operating activities		**(239,717)**	65,683
INVESTING ACTIVITIES			
Acquisition of a subsidiary - net of cash and bank balances acquired	6	**(8,758)**	(2,236)
Additional investment in acquired subsidiary		**-**	(8,892)
Purchase of investments		**(74,904)**	(35,873)
Purchase of investments in associates	11	**(13,999)**	(16,315)
Purchase of subsidiary classified as held for sale		**(11,602)**	-
Payments for purchase of investment properties		**(42,206)**	(21,730)
Proceeds from sale of investments		**5,607**	-
Proceeds from sale of investment properties		**8,315**	4,037
Purchase of intangibles	14	**(4,859)**	(1,583)
Purchase of premises and equipment		**(15,933)**	(7,534)
Net cash used in investing activities		**(158,339)**	(90,126)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**136,881**	35,280
Cash contributed by minorities in new subsidiaries		**13,770**	-
Increase in unrestricted investment accounts		**257,383**	8,716
Net movement in minority interests		-	(4,653)
Net cash flows from financing activities		**408,034**	39,343
INCREASE IN CASH AND CASH EQUIVALENTS		**9,978**	14,900
Cash and cash equivalents at 1 January		**92,510**	77,610
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28	**102,488**	92,510

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Notes	Attributable to the shareholders of the parent										
		Share capital BD 000s	Share premium BD 000s	Statutory reserve BD 000s	General reserve BD 000s	Investment revaluation reserve BD 000s	Foreign currency translation reserve BD 000s	Retained earnings BD 000s	Total BD 000s	Minority interest BD 000s	Minority interest in investment held for sale BD 000s	Total equity BD 000s
Balance at 01 January 2007		44,560	760	5,098	13,800	12,058	-	10,827	87,103	2,431	-	89,534
Income for the year		-	-	-	-	-	-	31,399	31,399	1,271	-	32,670
Transfer to investment revaluation reserve		-	-	-	-	11,717	-	(11,717)	-	-	-	-
Transfer to retained earnings on sale of investments		-	-	-	-	(1,385)	-	1,385	-	-	-	-
Net movement in minority interest		-	-	-	-	-	-	-	-	6,777	-	6,777
Transfer to general reserve		-	-	-	10,829	-	-	(10,829)	-	-	-	-
Bonus shares issued		4,456	-	-	(4,456)	-	-	-	-	-	-	-
Issue of new shares		21,000	14,280	-	-	-	-	-	35,280	-	-	35,280
Transfer to statutory reserve		-	-	3,140	-	-	-	(3,140)	-	-	-	-
Balance at 31 December 2007		70,016	15,040	8,238	20,173	22,390	-	17,925	153,782	10,479	-	164,261
Balance at 01 January 2008		70,016	15,040	8,238	20,173	22,390	-	17,925	153,782	10,479	-	164,261
Foreign currency translation		-	-	-	-	-	(1,383)	-	(1,383)	-	(618)	(2,001)
Fair value change on available for sale investments *		-	-	-	-	(4,769)	-	-	(4,769)	-	-	(4,769)
Net expense directly recognized in equity		-	-	-	-	(4,769)	(1,383)	-	(6,152)	-	(618)	(6,770)
Income for the year		-	-	-	-	-	-	35,686	35,686	2,748	-	38,434
Total recognized income and expense for the year		-	-	-	-	(4,769)	(1,383)	35,686	29,534	2,748	(618)	31,664
Transfer to investment revaluation reserve		-	-	-	-	17,119	-	(17,119)	-	-	-	-
Transfer to retained earnings on sale of investments		-	-	-	-	(1,745)	-	1,745	-	-	-	-
Increase in minority interest due to new subsidiaries		-	-	-	-	-	-	-	-	13,770	2,257	16,027
Transfer to general reserve	19	-	-	-	17,925	-	-	(17,925)	-	-	-	-
Bonus shares issued	19	10,502	-	-	(10,502)	-	-	-	-	-	-	-
Issue of new shares	19	80,518	56,363	-	-	-	-	-	136,881	-	-	136,881
Transfer to statutory reserve	20	-	-	3,569	-	-	-	(3,569)	-	-	-	-
Balance at 31 December 2008		**161,036**	**71,403**	**11,807**	**27,596**	**32,995**	**(1,383)**	**16,743**	**320,197**	**26,997**	**1,639**	**348,833**

Note: Included in retained earnings is a non-distributable reserve amounting to BD 906 (2007: BD 349) thousand relating to subsidiaries of the Bank.
* This includes share of fair value change on available for sale investments held by an associate amounting to BD 3,177 thousand (Note 11).

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Restricted Investment Accounts

For the year ended 31 December 2008

	Balance at 1 January 2007 BD 000s	Deposits BD 000s	Gross Income BD 000s	Mudarib Share BD 000s	Withdrawals / distributions BD 000s	Balance at 31 December 2007 BD 000s
Murabaha receivables	5,363	59,800	1,766	(380)	(8,680)	57,869
Istisna'a	13,746	-	973	(237)	(6,285)	8,197
	19,109	59,800	2,739	(617)	(14,965)	66,066

	Balance at 1 January 2008 BD 000s	**Deposits BD 000s**	**Gross Income BD 000s**	**Mudarib Share BD 000s**	**Withdrawals / distributions BD 000s**	**Balance at 31 December 2008 BD 000s**
Murabaha receivables	**57,869**	**50,704**	**4,225**	**(837)**	**(25,294)**	**86,667**
Istisna'a / Ijarah Muntahia Bittamleek contracts *	**8,197**	**-**	**614**	**(150)**	**(2,059)**	**6,602**
	66,066	**50,704**	**4,839**	**(987)**	**(27,353)**	**93,269**

* Istisna'a reported in prior year has become Ijarah Muntahia Bittamleek due to completion of construction.

The attached notes 1 to 37 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Kuwait Finance House (Bahrain) B.S.C. (c) [the "Bank"] is a closed joint stock company incorporated in the Kingdom of Bahrain on 22 January 2002 under the Bahrain Commercial Companies Law No. 21/2001 and is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 48128. The Bank is regulated and supervised by the Central Bank of Bahrain (the "CBB") and has a retail Islamic banking licence. The Bank operates under Islamic principles and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The address of the Bank's registered office is Bahrain World Trade Centre, West Tower, Isa Al Kabeer Avenue, Manama, 316, Kingdom of Bahrain.

The Bank offers a full range of Islamic banking services and products. The activities of the Bank include accepting Shari'a money placements/deposits, managing Shari'a profit sharing investment accounts, offering Shari'a financing contracts, dealing in Shari'a compliant financial instruments as principal/agent, managing Shari'a compliant financial instruments and other activities permitted under the CBB's Regulated Banking Services as defined in the licensing framework.

The Bank is a subsidiary of Kuwait Finance House K.S.C. (the "Parent Company"), a public company incorporated in the State of Kuwait and listed at the Kuwait Stock Exchange. The Bank's Shari'a Supervisory Board is entrusted to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and Hashemite Kingdom of Jordan. The activities of the Bank's key subsidiaries are mentioned in note 4.

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors passed on 3 February 2009.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investments and investment properties that have been measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ('BD') which is the functional currency of the Bank. All the values are rounded to the nearest BD thousand.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with Financial Accounting Standards [FAS] issued by the Accounting and Auditing Organization for Islamic Financial Institutions [AAOIFI], International Financial Reporting Standards [IFRS] and are in conformity with the Bahrain Commercial Companies Law (BCCL) and the Central Bank of Bahrain and Financial Institutions Law (CBBFIL).

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to the shareholders of the parent.

3 ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Classification of investments

On initial recognition, the Group decides whether the investment should be classified as held to maturity, held for trading, designated as fair value through statement of income or available for sale.

Investments are classified as "held to maturity" where the Group has intention and ability to hold these to maturity.

The Group classifies investments as "held for trading" if they are acquired primarily for the purpose of making a short-term profit.

Investments acquired with the intention of a long-term holding period, such as in private equity or real estate are classified as "fair value" through statement of income if the following conditions are met:

- they have readily available reliable measure of fair values; and
- such investment's performance is evaluated on a fair value basis in accordance with the Group's investment strategy and information is provided internally on that basis to the Group's Senior Management.

All other investments are classified as "available for sale".

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated balance sheet date.

- For private equity investments, fair value is determined using recent buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to valuation models, including net present value of estimated future cash flows, and based on earnings before financing cost, tax, depreciation and amortization ("EBITDA") multiples.

- For real estate investments, fair value is determined by revaluing the underlying real estate properties based on recent transactions of properties located in adjacent areas and present valuing them for the appropriate development risk.

- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund manager.

Impairment losses on financing contracts with customers

The Group reviews its problem financing contracts at each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific provisions against individually significant financing contracts, the Group also makes a collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

3 ACCOUNTING POLICIES (continued)

Impairment of equity 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 judgment. The Group evaluates factors, such as the share price volatility for quoted entities and future cash flows and the discount factors for unquoted entities.

3.2. Change in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year. However, during the year, the Group has adopted amendments to the following IFRS and FAS. Adoption of these revised standards and interpretations has the following effect on the consolidated financial statements of the Group:

IAS 39 - Financial Instruments Recognition and Measurement	Resulted in reclassification of certain investments as mentioned in note 10.3.
IFRIC 11 - IFRS 2 - Group and Treasury Share Transaction	No impact
FAS 17 - Investments	No impact

3.3. Summary of Significant Accounting Policies
The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

3.3.1. Foreign currency translation
The consolidated financial statements are presented in Bahraini Dinars, which is Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains / losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement on income and for items classified as "available for sale" such differences are taken to equity. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (the Bahraini Dinars) at the rate of exchange ruling at the balance sheet date, and their statements of income are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income in 'Other operating expenses' or 'Other income'.

3 ACCOUNTING POLICIES (continued)

3.3.2 Financial instruments - Initial recognition and subsequent measurement
Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash, balances with banks and Central Bank of Bahrain, murabahas due from banks and financing contracts with customers, investments and other receivables. Financial liabilities consist of murabahas and due to banks, murabaha contracts with non-banks, customers' current accounts, unrestricted investment accounts and other liabilities.

(i) Date of recognition
Purchases and sales of financial assets are recognized on the trade date, i.e. the date the Group commits to purchase or sale the asset.

(ii) Initial recognition of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

(iii) Murabaha due from banks
Murabaha due from banks are stated net of deferred profits and provision for impairment, if any.

(iv) Financing contracts with customers

(a) Murabaha receivables
Murabaha receivables consist of deferred sales transaction agreements and are stated net of deferred profits, any amounts written-off and provision for impairment, if any.

(b) Musharaka contracts
Musharaka contracts are partnerships in which the Group contributes capital. These are stated at the fair value of consideration given, less any amounts written-off and provision for impairment, if any.

(c) Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Ijarah assets are recorded at cost. Depreciation is provided on all Ijarah assets at rates calculated to write off the cost of each asset over the period of the lease to its residual value.

(v) Investments
These are classified as follows:

- Carried at fair value through statement of income
- Available for sale

(a) Carried at fair value through statement of income
Investments carried at fair value through statement of income include investments held for trading and investments designated upon initial recognition as carried at fair value through statement of income.

Investments are classified as "carried at fair value through statement of income" if they are designated on the date of acquisition as carried at fair value through statement of income. The Group also has venture capital ("VC") investments that fall under IAS 28, Investment in Associates or IAS 31, Interests in Joint Ventures which are classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28 and IAS 31. The Group's investments other than VC that fall under IAS 28 and IAS 31 are classified as associates or joint ventures respectively. Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs being recognised in statement of income.

Investments classified as 'carried at fair value through statement of income' are subsequently remeasured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income and transferred to the investment revaluation reserve in the consolidated statement of changes in equity. Upon realisation, these are transferred to retained earnings.

3 ACCOUNTING POLICIES (continued)

(b) Available for sale
Available for sale investments are those which are designated as such or are not classified as carried at fair value through statement of income . They include equity investments and sukuk.

After initial measurement, available for sale investments are subsequently measured at fair value unless fair value cannot be measured in which case they are measured at cost less impairment. Unrealised gains and losses are recognised directly in equity in the "investment revaluation reserve". When the investment is disposed off or the asset is considered as impaired, the cumulative gain or loss in case of disposal and cumulative loss in case of impairment previously recognised in equity is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed off on a weighted average basis. Profit earned whilst holding available for sale investments is reported as income from investment banking activities using the effective profit rate. Dividends earned whilst holding available for sale investments are recognised in the consolidated statement of income as "Other income" when the right of the payment has been established.

(vi) Murabaha due to banks
These represent funds received from banks on the principles of murabaha contracts and are stated at fair value of consideration received less amounts settled.

(vii) Murabaha contracts with non banks
These are stated at fair value of consideration received less amounts settled.

(viii) Unrestricted investment accounts
All unrestricted investment accounts are carried at fair value of consideration received less amounts settled.

Unrestricted investment account holders' funds are invested in short term highly liquid investments, medium term murabahas and Ijarah Muntahia Bittamleek. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

The provision against Murabaha and Ijarah Muntahia Bittamleek receivables are charged to both the shareholders and the holders of the unrestricted investment accounts, considering the allocation of various assets. Any reversal in provision is charged to shareholders and the holders of the unrestricted investment accounts to the extent it was charged to them. Expenses are allocated in proportion to average unrestricted investment account to total average assets of the Bank.

3.3.3. Derecognition of financial assets and financial liabilities

(i) Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the right to receive cash flows from the asset has expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

(ii) Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3 ACCOUNTING POLICIES (continued)

3.3.4 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Murabaha due from banks and financing contracts with customers

For amounts due from banks and financing contracts with customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income. Income from financing contracts with customers continue to be accrued on the reduced carrying amount based on the original effective profit rate.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision account. If the amount written off is later recovered, the recovery is credited to the 'Income from retail and corporate banking activities'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available for sale investments

For available for sale investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in equity.

3 ACCOUNTING POLICIES (continued)

In the case of sukuk classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Profit continues to be accrued at the original effective profit rate on the reduced carrying amount of the asset and is recorded in the statement of income. If, in a subsequent year, the fair value of sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

3.3.5 Offsetting financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.3.6 Land and development costs
Land and development costs consist of cost of land being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition and is stated at the lower of cost and net realisable value.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and sale.

3.3.7 Recognition of income and expense

(i) Income recognition

(a) Murabaha
Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognized when realized. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the repayments are overdue by 90 days, whichever is earlier.

(b) Ijarah Muntahia Bittamleek
Ijarah income is recognized on a time-apportioned basis over the lease term.

(c) Musharaka
Income on musharaka contracts is recognised when the right to receive payment is established or on distribution. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

(d) Dividends
Dividends from investments in equities are recognized when the right to receive the payment is established.

(e) Fees and commission income
Fees and commission income is recognized when earned.

(f) Sale of real estate
Revenue on sale of land is recognised when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate (10% and above) to demonstrate a commitment to pay for the property;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

(g) Service income
Revenue from rendering of services is recognised when the services are rendered.

(h) Revenue from telecommunication services

Post paid
Recurring post paid revenues represent billings to customers in respect of monthly rentals and usage. These are recognized when the related service is provided. Revenues arising from the previous billing date to the balance sheet date are accrued. Unearned subscription income representing billings made by the Group to its customers in advance and not earned as of the reporting date is recognised in the consolidated balance sheet as deferred revenue. Other revenue arising from sale of internet broadband equipment is recognised when such equipment is sold to the customers.

3 ACCOUNTING POLICIES (continued)

Prepaid
Prepaid cards enable the customers to forward purchase a specified amount of airtime. Sale price of the prepaid card represents the value of airtime usage available for the customers. Revenue is recognised based on airtime usage by the customer and unused airtime, that is not earned as of the reporting date, is recognised in the consolidated balance sheet as deferred revenue.

(i) Revenue from sale of goods
Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

(ii) Expense recognition

(a) Profit on murabahas payable (Banks and non banks)
Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

(b) Profit on unrestricted investment accounts
Profit on these is based on the income generated from investment accounts after deducting mudarib share.

3.3.8 Investment in associates
The Group's investments in its associates, other than those classified as fair value through statement of income under IAS 39, are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

3.3.9 Investment properties
The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in 'Income from investment activities' in the year in which they arise and transferred to the investment revaluation reserve in the consolidated statement of changes in equity. Upon realisation, these are transferred to retained earnings in accordance with the requirements of AAOIFI.

3.3.10 Subsidiary acquired with a view to sell
A subsidiary acquired with a view to subsequent disposal within 12 months is classified as "held for sale" when the sale is highly probable. Related assets, liabilities and minority interest of the subsidiary is shown separately on the balance sheet as "Assets of disposal group classified as held for sale", "Liabilities directly associated with disposal group classified as held for sale" and "Minority interest in disposal group classified as held for sale". The subsidiary classified as "held for sale" is measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of "assets of the disposal group classified as held for sale".

Any impairment loss is recognised in the consolidated statement of income for any write down of these assets to fair value, less costs to sell. A gain for any subsequent increase in the fair value, less costs to sell, is recognised to the extent that it is not in excess of the cumulative impairment loss that was recognised.

3 ACCOUNTING POLICIES (continued)

3.3.11 Premises and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises:	20
Equipment:	3 - 7
Motor vehicles and office furnitures:	2 - 5

An item of premises and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

3.3.12 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and related goodwill is recognised in the consolidated statement of income.

3.3.13 Intangible assets

Intangible assets include the value of license rights. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful life of 15 years.

3.3.14 Impairment of non financial assets

The Group assess at each reporting date or more frequently if events or changes in circumstances indicate that carrying value may be impaired, whether there is indication that a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

3 ACCOUNTING POLICIES (continued)

3.3.15 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recorded in the consolidated financial statements at fair value in 'other liabilities' being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'provisions'. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

3.3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from 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 obligation.

3.3.17 Share based payment transactions

Eligible employees are entitled to invest in shares of the employees share purchase plan for services rendered and are classified as equity settled share based payment transaction under IFRS 2.

The costs of equity settled share based payment transactions are recognised in the statement of income over the vesting period with the corresponding increase in equity, based on the best available estimate of the number of equity instruments expected to vest.

3.3.18 Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Group.

3.3.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

3.3.20 Investment revaluation reserve

Unrealized net gains resulting from revaluation of investments classified as fair value through statement of income and investment properties, are appropriated to investment revaluation reserve and are not available for distribution to shareholders. Upon disposal of these investments, the related cumulative net gain is transferred to retained earnings and is available for distribution. Furthermore, unrealized gains and losses on revaluation of available for sale investments are directly recognized in investment revaluation reserve.

3.3.21 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks and the Central Bank of Bahrain (excluding mandatory reserve deposits) and murabaha due from banks with original maturities of 90 days or less.

3.3.22 Allocation of income

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year and share of the funds invested.

3.3.23 Restricted investment accounts

Restricted investment accounts, based on Mudaraba contracts, represent assets held in trust or in a fiduciary capacity by the Group for the benefit of the investment accounts holders. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. The mudarib share is recognized when right to receive is established and are shown as part of income from retail and corporate banking activities.

3.3.24 Inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

3 ACCOUNTING POLICIES (continued)

3.4 Future changes in accounting policies

Following are the relevant FAS, IFRS and IFRIC interpretations that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates

- FAS 23 - Consolidation, 1 January 2009
- IAS 1 - Presentation of financial statements (Revised), 1 January 2009
- IAS 23 - Borrowing costs (Revised), 1 January 2009
- IFRS 8 - Operating segments, 1 January 2009
- IAS 27 - Consolidated and separate financial statements (Revised), 1 July 2009
- IFRS 3 - Business combinations (Revised), 1 July 2009

The management expects that, except for amended IAS 27 and IFRS 3, above standards will have no material impact, apart from certain additional disclosures, on the consolidated financial statements of the Group in the period of initial application. Amended IAS 27 and IFRS 3 will introduce a number of changes in the accounting for business combination occurring from the beginning of the period of initial application. This will impact the amount of goodwill recognised, the reported results in the period the acquisition occurs and future reported results. IAS 27 revised requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such a transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss.

4 INVESTMENT IN SUBSIDIARIES

Key subsidiaries, all of which have 31 December as their year end, are as follows:

Subsidiary	Activities	Year of incorporation	Country of incorporation	Ownership %
Mena Telecom W.L.L.	The company is a licensed telecommunications company and a Satellite Access Service Provider.	2003	Kingdom of Bahrain	100%
Miracle Graphics Company W.L.L.	The company is engaged in the business of ordinary photography, printing and publishing.	2003	Kingdom of Bahrain	70%
Baytik Investment Advisory W.L.L.	The principal activity of the company is providing advisory services to the Bank and its affiliates.	2003	Kingdom of Bahrain	100%
Al-Enma House for Real Estate B.S.C. (c)	The company is engaged in contract works of various nature, commission trading, import, export and sale of safety items, property management of commercial, industrial and residential buildings and security services to buildings and facilities.	2003	Kingdom of Bahrain	59.3%
Bayan Group for Investment Properties W.L.L.	The principal activity of the company is to buy, sell and lease properties and to undertake joint ventures with other companies engaged in similar activities.	2004	Kingdom of Bahrain	100%
Al Kindi Pharmaceutical Industries (Public Shareholding Company)	The company is engaged in the manufacture of drugs in all their pharmaceutical dosage forms and the manufacturing of semi-pharmaceutical products specialized for skin care and cosmetics.	1997	Hashemite Kingdom of Jordan	82.2%
Kuwait Finance House - Jordan and its subsidiaries	The company and its subsidiaries are engaged in investment advisory, acquisition and development of private equity investments and real estate development in the Hashemite Kingdom of Jordan. KFH Jordan has established five subsidiaries during the period.	2007/2008	Hashemite Kingdom of Jordan	100%
Ishbiliya Village W.L.L.	The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties (note 6).	2005	Kingdom of Bahrain	73.7%

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified for the purpose of measurement under International Accounting Standard 39: Financial Instruments: Recognition and Measurement as follows:

	Financial assets at fair value through statement of income BD 000s	Financial assets as available for sale BD 000s	Financial assets at cost/ amortised cost BD 000s	Financial liabilities at at cost/ amortised cost BD 000s	Total 2008 BD 000s
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	69,791	-	69,791
Murabaha due from banks	-	-	64,421	-	64,421
Financing contracts with customers	-	-	578,482	-	578,482
Investments	160,238	44,405	-	-	204,643
Receivables	-	-	81,162	-	81,162
	160,238	44,405	793,856	-	998,499
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha and due to banks	-	-	-	301,452	301,452
Murabaha due to non-banks	-	-	-	224,880	224,880
Customers' current accounts	-	-	-	53,236	53,236
Other liabilities	-	-	-	26,268	26,268
Unrestricted Investment accounts	-	-	-	310,474	310,474
	-	-	-	916,310	916,310

	Financial assets at fair value through statement of income BD 000s	Financial assets as available for sale BD 000s	Financial assets at cost/ amortised cost BD 000s	Financial liabilities at at cost/ amortised cost BD 000s	Total 2008 BD 000s
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	23,640	-	23,640
Murabaha due from banks	-	-	80,685	-	80,685
Financing contracts with customers	-	-	276,061	-	276,061
Investments	87,794	54,078	-	-	141,872
Receivables	-	-	36,853	-	36,853
	87,794	54,078	417,239	-	559,111
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha and due to banks	-	-	-	77,329	77,329
Murabaha due to non-banks	-	-	-	287,269	287,269
Customers' current accounts	-	-	-	107,150	107,150
Other liabilities	-	-	-	46,191	46,191
Unrestricted Investment accounts	-	-	-	53,091	53,091
	-	-	-	571,030	571,030

6 BUSINESS COMBINATION

During the year, the Group has increased its holding in Ishbiliya Village W.L.L. ("Ishbiliya") to 73.7%. Accordingly, Ishbiliya became a subsidiary of the Group and has been consolidated. The fair value and carrying value of identifiable assets and liabilities of Ishbiliya at the date of acquisition were as follows:

	Carrying Value BD '000	Fair Value BD '000
Assets		
Land and development costs	20,026	25,511
	20,026	25,511
Liabilities		
Murabaha due to non-banks	2,612	2,612
Other liabilities	1,497	1,497
	4,109	4,109
Net assets	15,917	21,402
Net assets acquired by the Group		21,402
Less:		
Minority interest		(1,455)
Revaluation surplus arising on the Group's initial holding in Ishbiliya		(243)
Cost of acquisition		19,704
Cost of acquisition		19,704
Less: carrying amount included under investments		(10,946)
Net cash outflow on acquisition		8,758

From the date of acquisition, Ishbiliya has contributed BD 1,724 thousand to the profit of the Group.

7 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

		2008 BD 000s	2007 BD 000s
Cash		2,526	2,027
Balances with banks		33,389	4,525
Balances with Central Bank of Bahrain	7.1	33,876	17,088
	7.2	69,791	23,640

7.1 This includes mandatory reserves of BD 31,724 (2007: BD 11,815) thousand, which are not available for use in the Group's day to day operation.

7.2 This includes BD 32,173 (2007: BD 5,309) thousand financed by URIA to meet the mandatory reserve requirement of the CBB and day to day operational cash requirements of the Bank.

8 MURABAHA DUE FROM BANKS

	2008 BD 000s	2007 BD 000s
Murabaha receivables from banks - international commodities	**64,464**	80,796
Deferred profits	**(43)**	(111)
	64,421	80,685

All the couterparties are based in the Middle East.

	Self financed*		URIA financed**		Total	
	2008 BD 000s	2007 BD 000s	**2008 BD 000s**	2007 BD 000s	**2008 BD 000s**	2007 BD 000s
Commodity murabaha	**-**	32,941	**64,464**	47,855	**64,464**	80,796
Deferred profits	**-**	(38)	**(43)**	(73)	**(43)**	(111)
	-	32,903	**64,421**	47,782	**64,421**	80,685

9 FINANCING CONTRACTS WITH CUSTOMERS

	Self financed*		URIA financed**		Total	
	2008 BD 000s	2007 BD 000s	**2008 BD 000s**	2007 BD 000s	**2008 BD 000s**	2007 BD 000s
Murabaha receivables	**200,278**	125,072	**170,747**	-	**371,025**	125,072
Deferred profits	**(17,423)**	(10,283)	**(14,924)**	-	**(32,347)**	(10,283)
Provisions	**(941)**	(336)	**-**	-	**(941)**	(336)
	181,914	114,453	**155,823**	-	**337,737**	114,453
Ijarah Muntahia Bittamleek (Note 9.1)	**177,766**	107,122	**58,057**	-	**235,823**	107,122
Provisions	**(76)**	-	**-**	-	**(76)**	-
	177,690	107,122	**58,057**	-	**235,747**	107,122
Istisna'a contracts	**-**	56,369	**-**	-	**-**	56,369
Musharaka contracts	**17,257**	7,535	**-**	-	**17,257**	7,535
	376,861	285,479	**213,880**	-	**590,741**	285,479
Collective provisions					**(12,259)**	(9,418)
					578,482	276,061

* Represents financing contracts financed through funds other than URIA.

** Represents financing contracts financed through the funds of URIA holders

9.1 These mainly comprises of land and building and are presented net of accumulated depreciation amounting to BD 18,479 (2007: BD 7,661) thousand.

9.2 The gross amount of financings individually determined to be impaired, before deducting any individually assessed impairment allowance is BD 1,257 (2007: BD 2,662) thousand.

9 FINANCING CONTRACTS WITH CUSTOMERS (continued)

9.3 The composition of the financing contracts with customers, net of deferred profits for murabaha and provision, based on the status of the customer to the contract, is as follows:

	2008 BD 000s	2007 BD 000s
Commercial and business	188,271	76,524
Real estate	280,455	118,260
Private individuals	109,756	81,277
	578,482	276,061

The following is a reconciliation of the individual and collective impairment provisions for impairment losses on financing contracts with customers:

	Individual impairment 2008 BD 000s	**Collective impairment 2008 BD 000s**	**Total 2008 BD 000s**	Individual impairment 2007 BD 000s	Collective impairment 2007 BD 000s	Total 2007 BD 000s
At 1 January	**336**	**9,418**	**9,754**	336	6,329	6,665
Charge for the year	**681**	**2,841**	**3,522**	-	3,089	3,089
At 31 December	**1,017**	**12,259**	**13,276**	336	9,418	9,754

10 INVESTMENTS

The Group's investments are classified as follows:

		2008 BD 000s	2007 BD 000s
Investments at fair value through statement of income	10.1	**160,238**	87,794
Available for sale investments	10.2	**44,405**	54,078
		204,643	141,872

10.1 Investments at fair value through statement of income

Held for trading equities - quoted	**-**	11,830
Designated upon initial recognition as fair value through statement of income		
Equities - quoted	**9,862**	-
Equities - unquoted	**139,270**	67,809
Managed funds - at Net Asset Value	**11,106**	8,155
	160,238	75,964
	160,238	87,794

10.2 Available for sale investments

Equities - quoted *	**7,757**	-
Equities - unquoted	**2,273**	28,336
Government sukuk	**16,455**	12,275
Other sukuk	**17,920**	13,467
Other sukuk	**44,405**	54,078

* These are stated net of impairment loss of BD 3,802 (2007: Nil) thousand.

10 INVESTMENTS (continued)

The composition of the investment portfolio is as follows:

	New Zealand/ Australia BD 000s	Middle East BD 000s	Others BD 000s	Total 2008 BD 000s	Total 2007 BD 000s
Commercial and technology	3,322	340	5,555	9,217	12,819
Real estate development	-	128,920	-	128,920	72,171
Banking and financial services	-	45,679	-	45,679	14,761
Others	-	20,827	-	20,827	42,121
	3,322	195,766	5,555	204,643	141,872

10.3 Reclassification of investments

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain of its held for trading equity investments to available for sale. The Group identified the investments, eligible under the amendments, for which at 1 July 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. The change of intent was attributable to the current turmoil in the equity markets due to the credit and liquidity problems in the market. Management believes that the current market conditions qualifies for the definition of 'rare circumstances' under revised IAS 39. The reclassifications were made with effect from 1 July 2008 at fair value at that date.

The following table shows carrying values and fair values of the reclassified assets:

	1 July 2008 Carrying value BD 000s	1 July 2008 Fair value BD 000s	31 December 2008 Carrying value BD 000s	31 December 2008 Fair value BD 000s
Trading investments reclassified to available for sale	4,409	4,409	2,143	2,143

The fair value of these investments has declined by BD 2,266 thousand which is recognized in the consolidated statement of income as impairment. The above reclassification does not have any significant impact on profit for the year.

Upto 30 June 2008 fair value gain of BD 142 thousand on reclassified investments is recognized in the consolidated statement of income.

11 INVESTMENT IN ASSOCIATES

The Group has the following associates as at 31 December 2008:

Name of the associate	Nature of business	Country of incorporation	Percentage holding
Durrat Khaleej Al Bahrain B.S.C.(c) ("Durrat")	Engaged in developing Durrat Al Bahrain Island, a real estate project.	Bahrain	48%
Deera Investment and Real Estate Development Company ("Deera")	Engaged in real estate project development and property management.	Hashemite Kingdom of Jordan	28%
Energy Central B.S.C.(c) ("Energy")	Engaged in providing utility services including district cooling, sea water desalination, waste water treatment and related services.	Bahrain	33.5%

11 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's investment in associates.

	2008 BD 000s	2007 BD 000s
Share of associates' balance sheet:		
Current assets	105,217	30,283
Non current assets	17,791	51,733
Current liabilities	(26,374)	(16,221)
Non current liabilities	(48,027)	(39,627)
Net assets	48,607	26,168

	2008 BD 000s	2007 BD 000s
Share of associates' revenue and net income:		
Revenue	66,219	40,936
Net income for the year	21,034	14,173

The following is the movement of Group's investment in associates:

	2008 BD 000s	2007 BD 000s
Carrying amount at 1 January	41,356	15,385
Investment during the year	13,999	16,315
Transfers during the year	917	(3,667)
Adjustment on purchase of investment properties	811	1,822
Share of fair value changes on available for sale investments *	(3,177)	-
Share of results	21,034	14,173
Other movements	(3,760)	(2,672)
Carrying amount at 31 December	71,180	41,356

* This amount is recognized as part of fair value change on available for sale investments in investment revaluation reserve.

12 INVESTMENT PROPERTIES

	2008 BD 000s	2007 BD 000s
Cost		
At 1 January	91,395	22,591
Additions	19,803	60,387
Relating to a subsidiary acquired during the year	-	9,718
Disposals	(8,262)	(1,301)
At 31 December	102,936	91,395
Fair value adjustment		
At 1 January	13,702	5,032
Unrealised gain on investment properties	9,220	9,625
Relating to a subsidiary acquired during the year	-	430
Relating to disposals	(874)	(1,385)
At 31 December	22,048	13,702
Total	124,984	105,097

12 INVESTMENT PROPERTIES (continued)

Investment properties, held in the Kingdom of Bahrain, at 31 December consist of the following:

	2008 BD 000s	2007 BD 000s
Buildings	**39,790**	31,199
Land	**85,194**	73,898
	124,984	105,097

Investment properties were revalued as of dates close to the balance sheet date, by independent consultants, who have reasonable and sufficient experience in the location and category of the properties being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

These include certain properties in which the Bank's share is valued at BD 353 (2007: BD 614) thousand which are jointly owned with third parties and are subject to normal conditions applicable to joint ownership.

13 RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

	2008 BD 000s	2007 BD 000s
Advance for purchase of investment property	**11,000**	11,000
Performance and management fees receivable (Note 29)	**15,545**	8,101
Investment liquidation proceeds receivable	**-**	4,305
Project expenses receivable (Note 29)	**4,864**	3,915
Inventories held for consumer finance	**2,058**	2,669
Profit receivable	**5,065**	1,726
Receivable relating to investment property (Note 29)	**4,522**	1,675
Trade receivables of subsidiaries	**29,341**	1,586
Inventories and work in progress of a subsidiary	**637**	650
Land and development cost of subsidiaries	**12,852**	-
Prepaid expenses	**1,067**	486
Advance for purchase of investment	**6,024**	-
Other assets	**4,801**	4,545
	97,776	40,658

14 GOODWILL AND INTANGIBLES

	Goodwill 2008 BD 000s	Other intangible assets 2008 BD 000s	Total 2008 BD 000s	Goodwill 2007 BD 000s	Other intangible assets 2007 BD 000s	Total 2007 BD 000s
Cost:						
At 1 January	**4,221**	**2,741**	**6,962**	1,354	1,158	2,512
Additions	**-**	**4,859**	**4,859**	2,867	1,583	4,450
At 31 December	**4,221**	**7,600**	**11,821**	4,221	2,741	6,962
Amorisation and impairment:						
At 1 January	**-**	**35**	**35**	-	4	4
Amortisation charge for the year	**-**	**58**	**58**	-	31	31
Impairment loss for the year	**1,129**	**-**	**1,129**	-	-	-
At 31 December	**1,129**	**93**	**1,222**	-	35	35
Net book value:						
At 1 January	**4,221**	**2,706**	**6,927**	1,354	1,154	2,508
At 31 December	**3,092**	**7,507**	**10,599**	4,221	2,706	6,927

The carrying amount of goodwill is attributable to the following subsidiaries, which are treated as cash generating units:

	2008 BD 000s	2007 BD 000s
Al Kindi Pharmaceutical Industries	**-**	129
Miracle Graphics Company W.L.L.	**1,226**	1,226
Mena Telecom W.L.L.	**-**	1,000
Al-Enma House for Real Estate B.S.C. (c)	**1,866**	1,866
	3,092	4,221

Key assumptions used in estimating recoverable amounts of cash-generating units
The recoverable amount of each cash generating unit's goodwill is based on value in use calculations using cash flow projections from financial budgets approved by senior management, extrapolated for five year using nominal GDP growth rate in the respective GCC countries in which they operate. The discount rate applied to cash flow projections represent cost of capital adjusted for appropriate risk premium for these cash generating units. The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. On this basis, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment situation.

15 INVESTMENT HELD FOR SALE

On 19 June 2008, the Group acquired 85% stake in Motherwell Bridge Limited ("MBL"), a company incorporated in the United Kingdom. MBL specializes in the design, engineering, construction management and manpower management of engineering projects principally in the oil, gas, petrochemical and steel industries. The subsidiary has been acquired with a view to selling down majority of the equity stake within a period of one year from the date of acquisition. Accordingly, the gross amount of assets, liabilities and minority interest of MBL have been disclosed as a separate line item in these consolidated financial statements in accordance with the requirements of IFRS 5, "Non current assets held for sale and discontinued operations".

16 FUNDS UNDER MANAGEMENT

At 31 December 2008, clients' funds managed in a fiduciary capacity amounted to BD 113,892 (2007: BD 127,200) thousand.

17 OTHER LIABILITIES

	2008 BD 000s	2007 BD 000s
Payable against purchase of investment properties (Note 29)	**4,542**	26,945
Pay orders issued not presented	**3,141**	7,727
Payable on account of financing contracts	**789**	3,378
Staff related accruals	**2,967**	2,989
Profit payable on account of Murabaha due to banks and non-banks	**1,599**	1,115
Profit payable on Unrestricted Investment Accounts	**1,995**	743
Trade payables of subsidiaries	**9,952**	-
Others	**1,283**	3,294
	26,268	46,191

18 UNRESTRICTED INVESTMENT ACCOUNTS

The mudarib share on investment accounts ranges from 20% to 35% (2007: 20% to 35%) depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 50% to 60% (2007: 50% to 60%). However, during the year, in addition to depositors share of profit, the Bank has distributed profit to investors from its own share of mudarib share. The rate of return paid to URIA holders for the last two financial years is as follows:

	2008 Rate of return %	2007 Rate of return %
Saving Accounts	**2.00**	1.25
VIP Saving Accounts	**2.50**	1.75
One Month TCD	**5.30**	4.38
Three Months TCD	**5.50**	4.50
Six Months TCD	**5.75**	4.75
1 Year TCD	**6.00**	5.00

19 SHARE CAPITAL

	2008 BD 000s	2007 BD 000s
Authorised share capital as of 31 December 2008 represents 3,500,000 thousand (2007: 3,500,000 thousand) shares of BD 0.1 (2007: BD 0.1) each.	**350,000**	350,000
Issued and fully paid-up share capital as of 31 December 2008 comprised as follows: Held by the Parent of the Bank - 1,500,863 thousand (2007: 675,654 thousand) shares of BD 0.1 (2007: BD 0.1) each.	**150,086**	67,565
Held under Employee Share Ownership Plan ("ESOP") - 109,505 thousand (2007: 24,506 thousand) shares of BD 0.1 (2007: BD 0.1) each.	**10,950**	2,451
	161,036	70,016

19 SHARE CAPITAL (continued)

Following a resolution passed by the shareholders of the Bank at the Annual General Meeting held on 24 March 2008, the Bank has:

(a) transferred BD 17,925 thousand from retained earnings to general reserves
(b) issued 105,020 thousand bonus shares amounting to BD 10,502 thousand by transfer from general reserves

Furthermore, in August 2008, the Bank increased the issued and paid up capital to BD 161,036 thousand by issuing 805,190 thousand shares at a value of BD 0.17 per share including a premium of BD 0.07 per share.

20 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year has been transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

21 COMMITMENTS AND CONTINGENT ITEMS

The Bank has the following commitments:

	2008 BD 000s	2007 BD 000s
Credit commitments on behalf of customers:		
Letters of credit	**19,751**	20,043
Guarantees	**29,011**	23,278
	48,762	43,321
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	**149,255**	16,051
	198,017	59,372

Operating lease commitments
At 31 December 2008, the Group had commitments in respect of non cancellable operating leases amounting to BD 5,967 (2007: BD 4,464) thousand relating to leasehold premises. Of the commitments in respect of operating leases BD 1,308 (2007: BD 231) thousand are due within one year and the remaining within two to five years.

Capital commitments
At 31 December 2008, the Group had commitments of BD 1,392 (2007: BD 1,694) thousand principally relating to the office premises.

22 INCOME FROM RETAIL AND CORPORATE BANKING ACTIVITIES

	2008 BD 000s	2007 BD 000s
Income from Murabaha receivables	**14,316**	7,814
Income from Ijarah Muntahia Bittamleek * and Istisna'a	**17,417**	11,676
Income from Musharaka contracts	**735**	602
Income from Murabaha with banks	**2,286**	4,577
Financing income from retail and corporate banking activities	**34,754**	24,669
Mudarib share on unrestricted investment accounts	**997**	144
Mudarib share on restricted investment accounts	**837**	441
Fees and commission	**2,076**	1,050
	38,664	26,304

* This is presented net of depreciation on Ijarah Muntahia Bittamleek assets amounting to BD 13,337 (2007: BD 4,607) thousand.

23 INCOME FROM INVESTMENT ACTIVITIES

	2008 BD 000s	2007 BD 000s
Unrealised gain on investments *	**9,783**	7,147
(Loss) / gain on sale of investments	**(302)**	1,305
Unrealised gain on investment properties **	**9,220**	9,625
Gain on sale of investment properties	**2,026**	2,736
Performance and management fees (Note 29)	**4,666**	4,869
Other income	**5,035**	3,785
	30,428	29,467

* This includes gain of BD 636 (2007: BD 4,323) thousand relating to held for trading investments.
** This includes gain of BD 1,248 (2007: BD 732) thousand relating to minority shareholders of a subsidiary.

24 INCOME AND EXPENSE RELATING TO FINANCING CONTRACTS

	2008 BD 000s	2007 BD 000s
Financing income from retail and corporate banking activities	**34,754**	24,669
Profit on Murabaha due to banks and non-banks	**14,870**	14,639
Profit on unrestricted investment accounts	**9,865**	1,662
	24,735	16,301
	10,019	8,368

25 STAFF COSTS

	2008 BD 000s	2007 BD 000s
Salaries and benefits	9,163	6,421
Other costs	1,685	1,685
	10,848	8,106

26 PROVISIONS

	2008 BD 000s	2007 BD 000s
Financing contracts with customers	3,522	3,089
Investments	3,802	-
Other assets	-	144
Goodwill	1,129	-
	8,453	3,233

27 OTHER OPERATING EXPENSES

	2008 BD 000s	2007 BD 000s
Business development	3,399	3,201
Technology and communication	1,388	973
Premises - rentals and maintenance	891	611
Administration, selling and others	6,845	5,027
	12,523	9,812

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise of the following balance sheet amounts:

	2008 BD 000s	2007 BD 000s
Cash	2,526	2,027
Balances with banks	33,389	4,525
Balances with Central Bank of Bahrain excluding mandatory reserve deposit	2,152	5,273
Murabaha due from banks	64,421	80,685
	102,488	92,510

29 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, parent company and its major shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. All the facilities to the related parties are performing facilities and are free of any provision for possible credit losses.

The following balances arise from the transactions, in addition to those relating to investment transactions, entered into with the related parties:

	Associated companies BD 000s	Parent and its major shareholders BD 000s	Directors and key management personnel BD 000s	Other related parties BD 000s	2008 BD 000s	2007 BD 000s
Murabaha due from banks	-	56,550	-	-	56,550	4,336
Financing contracts with customers	-	-	17,415	44,850	62,265	24,279
Performance and management fees receivable (Note 13)	15,545	-	-	-	15,545	8,101
Project expenses receivable (Note 13)	998	-	-	3,866	4,864	3,915
Receivable relating to investment property (Note 13)	4,522	-	-	-	4,522	-
Murabaha and due to banks	-	173,959	-	8,294	182,253	-
Murabaha due to non-banks	26,051	-	-	14,684	40,735	61,776
Customers' current accounts	10,363	-	247	3,654	14,264	71,760
Payable against purchase of investment properties (Note 17)	4,542	-	-	-	4,542	23,591
Other liabilities	151	-	-	-	151	151
Unrestricted investment accounts	5,312	-	920	21,991	28,223	7,446
Letters of credit	20	-	-	8,706	8,726	14,326
Guarantees	-	-	-	2,460	2,460	2,451
Restricted Investment Account - Funds received	22,450	-	332	1,508	24,290	255
Restricted Investment Account - Investments made	-	-	-	52,883	52,883	19,378

29 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	Associated companies BD 000s	Parent and its major shareholders BD 000s	Directors and key management personnel BD 000s	Other related parties BD 000s	2008 BD 000s	2007 BD 000s
Income from Murabaha with banks	-	749	-	295	1,044	114
Income from financing contracts relating to customers	-	-	149	1,200	1,349	1,411
Performance and management fees (Note 23)	4,318	-	-	348	4,666	4,869
Profit on Murabaha and due to banks	-	2,257	-	223	2,480	-
Profit on Murabaha due to non-banks	1,449	-	1	331	1,781	2,749
Profit on unrestricted investment accounts	194	-	20	558	772	109
Operating expenses	-	-	-	900	900	581

Compensation of key management personnel, included in the consolidated statement of income, is as follows:

	2008 BD 000s	2007 BD 000s
Short term employee benefits	3,697	2,822
Long term employee benefits	136	5

30 SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risk and rates of return are effected predominantly by differences in the products and services offered. Secondary information is reported geographically. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Group is organized into the following business segments.

Retail and Corporate Banking	Principally engaged in shari'a compliant profit sharing investment arrangements, providing shari'a compliant financing contracts and other facilities to retail, corporate and institutional customers.
Investment Banking and others	Principally engaged in investment banking activities, including private equity and real estate investments and in other activities.

30 SEGMENT INFORMATION (continued)

Primary segment information - business segments
The following table presents revenue, profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2008.

	Retail and Corporate Banking BD 000s	Investment Banking and Others BD 000s	Total BD 000s
Segment revenues	38,664	59,848	98,512
Segment costs	(12,276)	(21,640)	(33,916)
Profit on unrestricted investment accounts	(9,865)	-	(9,865)
Segment results	16,523	38,208	54,731
Unallocated costs			(16,297)
Net Income for the year			38,434
Assets and Liabilities			
Segment assets	720,594	460,416	1,181,010
Investment in associates	-	71,180	71,180
	720,594	531,596	1,252,190
Unallocated assets			32,485
Total assets			1,284,675
Segment liabilities	410,120	212,235	622,355
Unrestricted investment accounts	310,474	-	310,474
	720,594	212,235	932,829
Unallocated liabilities			3,013
Total liabilities including unrestricted investment accounts			935,842

30 SEGMENT INFORMATION (continued)

The following table presents revenue, profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2007.

	Retail and Corporate Banking BD 000s	Investment Banking and Others BD 000s	Total BD 000s
Segment revenues	26,304	45,689	71,993
Segment costs	(14,058)	(11,594)	(25,652)
Profit on unrestricted investment accounts	(1,662)	-	(1,662)
Segment results	10,584	34,095	44,679
Unallocated costs			(12,009)
Net Income for the year			32,670
Assets and Liabilities			
Segment assets	386,894	287,552	674,446
Investment in associates	-	41,356	41,356
	386,894	328,908	715,802
Unallocated assets			19,489
Total assets			735,291
Segment liabilities	333,803	181,047	514,850
Unrestricted investment accounts	53,091	-	53,091
	386,894	181,047	567,941
Segment liabilities - unallocated			3,089
Total liabilities including unrestricted investment accounts			571,030

Secondary segment information - geographical segments
The Group mainly operates in the Kingdom of Bahrain therefore geographical segments are not required to be identified.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

At 31 December 2008, the fair value of financing contracts with customers is BD 574,463 thousands (carrying value BD 578,482 thousands) which is determined by comparing market profit rates when they were first recognized with current market profit rates offered for similar financial instruments. The fair values of other financial instruments approximate their carrying values as these are either short term or floating rate instruments.

At 31 December 2007, fair values of financial instruments approximate the carrying amount.

Financial instruments recorded at fair value
The carrying value of financial instruments which are recorded at fair value whose fair value is based on quoted market prices and net asset value is BD 28,725 (2007: 19,985) thousands and those involving valuation techniques where all the model inputs are observable in the market is BD 175,918 (2007: BD 121,887) thousands.

32 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Group's contractual undiscounted repayment obligations are disclosed in Note 33.3 'Risk Management - Liquidity Risk and Funding Management'.

	Up to one year			Over one year				
	Up to 3 months 2008 BD 000s	3 months to 12 months 2008 BD 000s	Subtotal up to 12 months 2008 BD 000s	1 to 5 years 2008 BD 000s	5 to 10 years 2008 BD 000s	Over 10 years 2008 BD 000s	Subtotal Over 1 year 2008 BD 000s	Total 2008 BD 000s
Assets								
Cash and balances with banks and Central Bank of Bahrain	38,067	-	38,067	-	-	31,724	31,724	69,791
Murabaha due from banks	64,421	-	64,421	-	-	-	-	64,421
Financing contracts with customers	63,481	208,230	271,711	261,417	38,377	6,977	306,771	578,482
Investments	5,000	19,889	24,889	179,754	-	-	179,754	204,643
Investment in associates	-	-	-	-	-	71,180	71,180	71,180
Investment properties	-	-	-	124,984	-	-	124,984	124,984
Receivables, prepayments and other assets	51,632	35,144	86,776	11,000	-	-	11,000	97,776
Goodwill and intangibles	-	-	-	-	-	10,599	10,599	10,599
Premises and equipment	-	-	-	-	-	31,409	31,409	31,409
Assets of disposal group classified as held for sale	-	31,390	31,390	-	-	-	-	31,390
Total	222,601	294,653	517,254	577,155	38,377	151,889	767,421	1,284,675
Liabilities and unrestricted investment accounts								
Murabaha and due to banks	301,452	-	301,452	-	-	-	-	301,452
Murabaha contracts with non-banks	38,159	4,530	42,689	182,191	-	-	182,191	224,880
Customers' current accounts	26,618	10,647	37,265	15,971	-	-	15,971	53,236
Other liabilities	13,306	12,806	26,112	156	-	-	156	26,268
Liabilities directly associated with disposal group classified as held for sale	-	19,532	19,532	-	-	-	-	19,532
Unrestricted investment accounts	43,180	10,409	53,589	256,885	-	-	256,885	310,474
Total	422,715	57,924	480,639	455,203	-	-	455,203	935,842
Net	(200,114)	236,729	36,615	121,952	38,377	151,889	312,218	348,833

32 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Up to one year			Over one year				
	Up to 3 months 2007 BD 000s	3 months to 12 months 2007 BD 000s	Subtotal up to 12 months 2007 BD 000s	1 to 5 years 2007 BD 000s	5 to 10 years 2007 BD 000s	Over 10 years 2007 BD 000s	Subtotal Over 1 year 2007 BD 000s	Total 2007 BD 000s
Assets								
Cash and balances with banks and Central Bank of Bahrain	11,825	-	11,825	-	-	11,815	11,815	23,640
Murabaha due from banks	80,685	-	80,685	-	-	-	-	80,685
Financing contracts with customers	19,805	64,539	84,344	119,468	43,795	28,454	191,717	276,061
Investments	11,830	6,620	18,450	29,915	80,314	13,193	123,422	141,872
Investment in associates	-	-	-	-	-	41,356	41,356	41,356
Investment properties	-	-	-	105,097	-	-	105,097	105,097
Receivables, prepayments and other assets	15,026	14,236	29,262	11,396	-	-	11,396	40,658
Goodwill and intangibles	-	-	-	-	-	6,927	6,927	6,927
Premises and equipment	-	-	-	-	-	18,995	18,995	18,995
Total	139,171	85,395	224,566	265,876	124,109	120,740	510,725	735,291
Liabilities and unrestricted investment accounts								
Murabaha and due to banks	73,559	3,770	77,329	-	-	-	-	77,329
Murabaha contracts with non-banks	254,182	33,087	287,269	-	-	-	-	287,269
Customers' current accounts	53,575	21,430	75,005	32,145	-	-	32,145	107,150
Other liabilities	15,486	29,142	44,628	47	-	1,516	1,563	46,191
Unrestricted investment accounts	26,921	15,294	42,215	10,876	-	-	10,876	53,091
Total	423,723	102,723	526,446	43,068	-	1,516	44,584	571,030
Net	(284,552)	(17,328)	(301,880)	222,808	124,109	119,224	466,141	164,261

33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring of material risks. The Group manages its exposure to risks within the approved risk limits . The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to its responsibilities. The Group is mainly exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to prepayment risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies, policies and risk appetite.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three members who are Directors, including one Non-Executive Director. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Governance Committee

The Risk and Governance Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Asset and Liability Committee

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Bank's balance sheet in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's balance sheet both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

Shari'a Supervisory Board

The Bank's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process and also monitoring compliance with risk principles, policies and limits, across the Bank. The group is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This group also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

33 RISK MANAGEMENT (continued)

Risk measurement and reporting systems
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Bank has established relevent risk limit structures to quantify its risk appetite. The Bank conducts stress testing under various scenarios for its material portfolios using statistical methods to assess the impact of such scenarios on its portfolio and regulatory capital.

Established risk limits reflect the business strategy and market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across its material risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk & Governance Committee and senior management. The report includes aggregate credit exposures, concentration limits, investment limits, foreign exchange exposures, hold limit exceptions, liquidity gaps and ratios and changes in Group's risk profile. On a periodic basis, a detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the collective provision for credit losses on a quarterly basis. The Board of Directors receives Risk & Governance Committee's report once in a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Chief Executive Officer and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

33.2 Credit Risk

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

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

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

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 master netting and collateral agreements.

33 RISK MANAGEMENT (continued)

33.2 Credit Risk (continued)

	Gross maximum exposure 2008 BD 000's	Gross maximum exposure 2007 BD 000's
Balances with banks and Central Bank of Bahrain	**67,265**	21,613
Murabaha due from banks	**64,421**	80,685
Financing contracts with customers	**578,482**	276,061
Investments - sukuks	**34,375**	25,742
Receivables	**81,162**	40,172
Total	**825,705**	444,273
Commitments and contingent items	**198,017**	59,372
Total credit risk exposure	**1,023,722**	503,645

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

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2008 was BD 52,923 (2007: BD 54,718) thousand before taking account of collateral. This facility is fully secured by authenticated mortgage over title deeds of land and building in the favour of the Bank.

The Group financial assets having credit risk, before taking into account any collateral held can be analysed by the following geographical regions:

	2008 BD 000s	2007 BD 000s
Middle East	**1,018,707**	471,456
North America	**416**	13,394
Europe	**805**	500
New Zealand / Australia	**1,282**	10,875
Other	**2,512**	7,420
Total	**1,023,722**	503,645

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

33 RISK MANAGEMENT (continued)

33.2 Credit Risk (continued)

	Gross maximum exposure 2008 BD 000's	Gross maximum exposure 2007 BD 000's
Trading and Manufacturing	**176,085**	106,324
Banking and financial institutions	**236,642**	121,941
Construction and real estate	**485,917**	160,967
Other	**125,078**	114,413
Total	**1,023,722**	503,645

The Group holds collateral against its financial assets relating to customers.

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial financing, lien over investment accounts, charges over real estate properties, inventory and trade receivables; and

- For retail and consumer financing, lien over investment accounts, mortgages over the related assets.

The Bank also obtains personal guarantees from the owners for financings to their companies, but the benefits are not included in the above table. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained periodically and during its review of the facility.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using internal credit gradings. These internal credit gradings are assigned to each individual borrower. They are defined as follows:

Good
Credit exposures in this category are normal credit risks which show no sign of actual or potential default and it is unlikely that the Bank will sustain a loss.

Special mention
Credit exposures in this category show no sign of actual or potential default. However certain minor unsatisfactory aspects to the exposure justify more than normal attention.

Sub-standard
In this category normal repayment is in jeopardy and there exists well defined weaknesses in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral.

Doubtful
Full repayment is questionable in this grade. Serious problems exist to the point where a partial loss of principal is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable.

Loss - Individually impaired
Total loss is expected, however in management's opinion recovery is a possibility, and hence write off is deferred.

33 RISK MANAGEMENT (continued)

33.2 Credit Risk (continued)

Credit quality per class of financial assets

	Neither past due nor impaired			Past due or	
	Good 2008 BD 000's	Special mention 2008 BD 000's	Substandard and Doubtful 2008 BD 000's	individually impaired 2008 BD 000's	Total 2008 BD 000's
Murabaha due from banks	64,421	-	-	-	64,421
Financing contracts with customers	560,052	18,696	-	13,010	591,758
Investments - sukuks	34,375	-	-	-	34,375
Total	658,848	18,696	-	13,010	690,554

	Neither past due nor impaired			Past due or	
	Good 2007 BD 000's	Special mention 2007 BD 000's	Substandard and Doubtful 2007 BD 000's	individually impaired 2007 BD 000's	Total 2007 BD 000's
Murabaha due from banks	80,685	-	-	-	80,685
Financing contracts with customers	261,929	9,058	-	14,828	285,815
Investments - sukuks	25,742	-	-	-	25,742
Total	368,356	9,058	-	14,828	392,242

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly for corporate customers.

Aging analysis of past due but not impaired receivables per class of financial assets
An analysis of past due financing contracts, by age, is provided below. The majority of the past due financing contracts are not considered to be impaired.

	Less than 30 days 2008 BD 000's	31 to 60 days 2008 BD 000's	61 to 90 days 2008 BD 000's	More than 90 days 2008 BD 000's	Total 2008 BD 000's
Financing contracts with customers	10,518	232	251	752	11,753

	Less than 30 days 2007 BD 000's	31 to 60 days 2007 BD 000's	61 to 90 days 2007 BD 000's	More than 90 days 2007 BD 000's	Total 2007 BD 000's
Financing contracts with customers	4,430	533	4,402	887	10,252

33 RISK MANAGEMENT (continued)

33.2 Credit Risk (continued)

Impairment assessment
The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed provisions and collectively assessed provisions.

Individually assessed provisions
The Group determines the provisions appropriate for each individually significant financing contract on an individual basis. Items considered when determining provision amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed provisions
Provisions are assessed collectively for losses on financing contracts that are not individually significant and for individually significant financing contract where there is not yet objective evidence of individual impairment. Provisions are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment provision, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment provision is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for financing contracts.

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 7% of customer deposits, denominated in Bahrain Dinars, excluding deposits from resident subsidiaries. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of liquid assets to customer liabilities. Liquid assets consists of cash and balances with banks and Central Bank of Bahrain, Murabaha due from banks and Central Bank of Bahrain sukuk. The ratios during the year were as follows:

33 RISK MANAGEMENT (continued)

33.3 Liquidity risk and funding management (continued)

	2008 %	2007 %
31 December	**25.60**	19.47
During the year:		
Average	**28.19**	25.92
Highest	**35.86**	39.11
Lowest	**20.89**	19.47

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted repayment obligations. Maturity analysis of assets and liabilities for the expected maturities of these liabilities is disclosed in Note 32. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	On demand BD 000's	Less than 3 months BD 000's	3 to 12 months BD 000's	1 to 5 years BD 000's	Over 5 years BD 000's	Total BD 000's
At 31 December 2008						
Murabaha and due to banks	**22,975**	**278,720**	**-**	**-**	**-**	**301,695**
Murabaha due to non-banks	**-**	**191,830**	**34,378**	**-**	**-**	**226,208**
Customers' current accounts	**53,236**	**-**	**-**	**-**	**-**	**53,236**
Other liabilities	**-**	**8,655**	**17,613**	**-**	**-**	**26,268**
Unrestricted investment accounts	**36,092**	**27,429**	**256,191**	**-**	**-**	**319,712**
Total undiscounted financial liabilities 2008	**112,303**	**506,634**	**308,182**	**-**	**-**	**927,119**
At 31 December 2007						
Murabaha and due to banks	4,427	69,670	3,980	-	-	78,077
Murabaha due to non-banks	-	255,286	33,231	-	-	288,517
Customers' current accounts	107,150	-	-	-	-	107,150
Other liabilities	-	15,486	29,142	47	1,516	46,191
Unrestricted investment accounts	36,255	8,922	8,159	-	-	53,336
Total undiscounted financial liabilities 2007	147,832	349,364	74,512	47	1,516	573,271

Credit commitments and contingent items

These include commitments to enter into contracts which are designed to meet the requirements of the Group's customers. Commitments represent contractual commitments under Murabaha, Musharaka and Ijarah Muntahia Bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

33 RISK MANAGEMENT (continued)

33.3 Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items.

	Less than 3 months BD 000's	3 to 12 months BD 000's	1 to 5 years BD 000's	Total BD 000's
At 31 December 2008				
Commitments on behalf of customers:				
Letters of credits	**4,829**	**5,141**	**9,781**	**19,751**
Guarantees	**-**	**-**	**29,011**	**29,011**
Irrevocable commitments to extend credit	**8,960**	**140,295**	**-**	**149,255**
Total	**13,789**	**145,436**	**38,792**	**198,017**
At 31 December 2007				
Commitments on behalf of customers:				
Letters of credits	9,708	10,335	-	20,043
Guarantees	-	14,580	8,698	23,278
Irrevocable commitments to extend credit	964	15,087	-	16,051
Total	10,672	40,002	8,698	59,372

The Group does not expect any material loss in respect of the above.

33.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates, and equity prices. The Group manages and monitors the positions using sensitivity analyses.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the net income for the year, based on the non-trading financial assets and financial liabilities held at 31 December 2008. As all the profit bearing financial instruments classified as available for sale are floating rate instruments there is minimal impact of profit rate risk on the Bank's equity.

33 RISK MANAGEMENT (continued)

33.4 Market risk (continued)

The effect of decreases in basis points is expected to be equal and opposite to the effect of the increases shown.

	2008 BD 000s	Change in basis points	Effect on net income for the year BD 000s
ASSETS			
Murabaha due from banks	**64,421**	**+25**	**161**
Financing contracts with customers	**253,081**	**+25**	**633**
Investments - sukuk	**34,375**	**+25**	**86**
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS			
Murabaha and due to banks	**301,452**	**+25**	**(754)**
Murabaha due to non-banks	**224,880**	**+25**	**(562)**
Unrestricted investment accounts	**310,474**	**+25**	**(776)**
Total			**(1,212)**

	2007 BD 000s	Change in basis points	Effect on net income for the year BD 000s
ASSETS			
Murabaha due from banks	80,685	+25	202
Financing contracts with customers	171,026	+25	428
Investments - sukuk	25,742	+25	64
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS			
Murabaha and due to banks	77,329	+25	(193)
Murabaha due to non-banks	287,269	+25	(718)
Unrestricted investment accounts	53,091	+25	(133)
Total			(350)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has established Value at Risk limit for foreign currency exposures, this limit is monitored on a regular basis by the Risk Management Group.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2008 on all its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Bahraini Dinar, with all other variables held constant, on the consolidated statement of income.

33 RISK MANAGEMENT (continued)

33.4 Market risk (continued)

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	Change in currency rate %	Effect on profit 2008 BD 000's	Effect on equity 2008 BD 000's	Effect on profit 2007 BD 000's	Effect on equity 2007 BD 000's
NZD	+20	520	164	3,164	928
KWD	+20	(1,288)	-	1,580	-
JOR	+20	7,521	-	-	968
GBP	+20	470	-	876	-
Total		7,223	164	5,620	1,896

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2008) due to a possible change (i.e. +15%) in the value of individual investments, with all other variables held constant, is BD 24,036 thousands and BD 1,505 thousands, respectively (2007: BD 13,169 thousands and BD 4,250 thousands, respectively). The effect of decrease in the value of individual investment is expected to be equal and opposite to the effect of the increase shown.

33.5 Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

33.6 Investment property price risk
Investment property price risk is the risk that the fair values of investment properties decrease as the result of downfall in the real estate market. The investment property price risk exposure arises from Group's holding of investment properties (lands and buildings).

The effect on income and equity due to a reasonably possible change (i.e. +15%) in the value of individual investment properties, with all other variables held constant, is BD 18,748 (2007: 15,765) thousands. The effect of decrease in the value of individual investment is expected to be equal and opposite to the effect of the increase shown.

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

34 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 Bahrain in supervising the Group.

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 healthy capital ratios in order to support its business and to maximise shareholders' value.

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

Regulatory capital	**2008 BD 000s**	2007 BD 000s
As per the return submitted to CBB, the regulatory capital of the Bank is as follows:		
Tier 1 capital	185,402	116,584
Tier 2 capital	-	40,215
Total capital	185,402	156,799
Risk weighted assets	1,024,840	705,943
Total capital ratio	18.1%	22.2%
Minimum requirement	12.5%	12.5%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings, foreign currency translation and minority interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes collective provision, current year's profit and revaluation reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Bahrain.

35 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive any significant income or incurred significant expenses which were prohibited by the Shari'a.

36 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations approved by Shari'a Supervisory Board.

37 ZAKAH

In accordance with the instructions of the Shari'a Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

Enclosed: Public Disclosures 2008

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