

**KUWAIT FINANCE HOUSE K.S.C. AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. (the bank) and Subsidiaries (the group), which comprise consolidated balance sheet as of 31 December 2008, the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the bank's management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

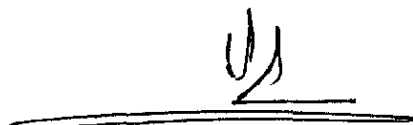
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
KUWAIT FINANCE HOUSE K.S.C. (continued)****Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the bank and the consolidated financial statements, together with the contents of the report of the bank's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the group or on its financial position.

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



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OF ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS



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DELOITTE
AL-FAHAD & CO.

20 January 2009
Kuwait

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Note	2008 KD 000's	2007 KD 000's
INCOME			
Financing income	34	561,271	466,893
Investment income	3	209,897	266,397
Fee and commission income		70,140	56,125
Net gain from dealing in foreign currencies		13,547	14,696
Other income		29,998	27,037
		<u>884,853</u>	<u>831,148</u>
EXPENSES			
Staff costs		96,254	73,783
General and administrative expenses		70,873	48,134
Murabaha and ijara costs		81,194	65,712
Depreciation		28,547	27,939
Impairment	4	210,940	38,179
		<u>487,808</u>	<u>253,747</u>
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		397,045	577,401
Distribution to depositors	14	216,800	242,528
PROFIT AFTER DISTRIBUTION		180,245	334,873
Contribution to Kuwait Foundation for the Advancement of Sciences		1,626	2,847
National Labor Support tax		2,573	6,257
Zakat (based on Zakat Law No. 46/2006)		1,234	174
Directors' fees	18	160	200
PROFIT FOR THE YEAR		174,652	325,395
Attributable to:			
Equity holders of the bank		156,960	275,266
Minority interest		17,692	50,129
		<u>174,652</u>	<u>325,395</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	5	76 fils	138 fils

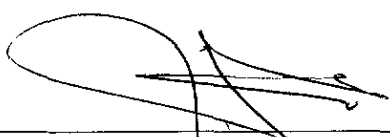
The attached notes 1 to 34 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 KD 000's	2007 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	6	368,062	553,565
Short-term international murabaha		1,312,153	1,067,291
Receivables	7	4,779,788	3,988,131
Trading properties		57,590	126,413
Leased assets	8	1,181,825	930,657
Investments	9	1,038,602	896,098
Investments in associates	10	449,496	341,279
Investment properties	11	279,574	247,300
Other assets		485,713	239,694
Property and equipment	12	591,339	407,488
TOTAL ASSETS		10,544,142	8,797,916
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	13	1,595,452	1,186,391
Depositors' accounts	14	6,611,556	5,361,155
Other liabilities		394,033	380,853
TOTAL LIABILITIES		8,601,041	6,928,399
DEFERRED REVENUE		344,426	374,608
FAIR VALUE RESERVE	15	11,394	86,843
FOREIGN EXCHANGE TRANSLATION RESERVE	16	(7,548)	1,972
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	17	205,842	171,535
Share premium		464,766	464,735
Proposed issue of bonus shares	18	24,701	34,307
Reserves	19	462,851	427,925
		1,158,160	1,098,502
Proposed cash dividend	18	82,124	111,498
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		1,240,284	1,210,000
Minority interest		354,545	196,094
TOTAL EQUITY		1,594,829	1,406,094
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		10,544,142	8,797,916


BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)


MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the bank										Minority interest KD 000's	Total equity KD 000's		
	Share Capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Employee share option reserve KD 000's	Treasury share KD 000's	Profit for the year KD 000's	Sub total KD 000's	Sub total KD 000's			Proposed cash dividend KD 000's	Sub total KD 000's
At 31 December 2006	122,525	188,788	18,379	186,115	112,910	4,237	(304)	-	302,958	632,650	69,839	702,489	137,443	839,932
Issue of bonus shares	18,379	-	(18,379)	-	-	-	-	-	-	-	-	-	-	-
Issue of shares for cash	30,631	275,681	-	-	-	-	-	-	-	306,312	-	306,312	-	306,312
Cash received on cancellation of share options	-	266	-	-	-	-	-	-	-	266	-	266	-	266
Zakat (Note 2)	-	-	-	-	(5,804)	-	-	-	(5,804)	(5,804)	-	(5,804)	-	(5,804)
Cash dividends paid	-	-	-	-	-	-	-	275,266	275,266	-	(69,839)	(69,839)	-	(69,839)
Profit for the year	-	-	-	-	-	-	-	275,266	275,266	275,266	-	275,266	50,129	325,395
Distribution of profit:														
Proposed issue of bonus shares	-	-	34,307	-	-	-	-	(34,307)	(34,307)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	(111,498)	(111,498)	111,498	-	-	-	-
Transfer to statutory reserve	-	-	-	28,474	-	-	-	(28,474)	-	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	100,987	-	-	(100,987)	-	-	-	-	-	-
Net movement in treasury shares	-	-	-	-	-	-	1,310	-	1,310	1,310	-	1,310	-	1,310
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	8,522	8,522
At 31 December 2007	171,535	464,735	34,307	214,589	208,093	4,237	1,006	-	427,925	1,098,502	111,498	1,210,000	196,094	1,406,094
Issue of bonus shares	34,307	-	(34,307)	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	31	-	-	-	-	-	-	(7,558)	31	-	31	-	31
Zakat (Note 2)	-	-	-	(7,558)	-	-	-	-	(7,558)	(7,558)	-	(7,558)	-	(7,558)
Cash dividends paid	-	-	-	-	-	-	-	-	-	(111,498)	-	(111,498)	-	(111,498)
Profit for the year	-	-	-	-	-	-	-	156,960	156,960	156,960	-	156,960	17,692	174,652
Distribution of profit:														
Proposed issue of bonus shares	-	-	24,701	-	-	-	-	(24,701)	(24,701)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	(82,124)	(82,124)	82,124	-	-	-	-
Transfer to statutory reserve	-	-	-	16,255	-	-	-	(16,255)	-	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	33,880	-	-	(33,880)	-	-	-	-	-	-
Net movement in treasury shares	-	-	-	-	-	-	(7,651)	-	(7,651)	(7,651)	-	(7,651)	-	(7,651)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	140,759	140,759
At 31 December 2008	205,842	464,766	24,701	223,286	241,973	4,237	(6,645)	-	462,851	1,158,160	82,124	1,240,284	354,545	1,594,829

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2008

	Note	2008 KD 000's	2007 KD 000's
OPERATING ACTIVITIES			
Profit for the year		174,652	325,395
Adjustment for:			
Depreciation		28,547	27,939
Impairment		210,940	38,179
Dividend income		(19,910)	(24,326)
Gain on part sale of associates and subsidiaries		(16,466)	(76,973)
Gain on sale of available for sale investments		(72,284)	(59,395)
Share of results of associates		(42,991)	(45,422)
Other investment income		(2,217)	(1,040)
		<u>260,271</u>	<u>184,357</u>
Changes in operating assets and liabilities			
<i>(Increase) decrease in operating assets:</i>			
Exchange of deposits		(6,633)	(6,224)
Receivables		(483,769)	(1,593,999)
Trading properties		68,823	(35,950)
Leased assets		(260,055)	(288,420)
Other assets		(246,348)	(116,626)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		409,062	106,386
Depositors' accounts		1,250,401	1,631,224
Other liabilities		154,104	99,893
Deferred revenue		(30,185)	75,348
		<u>1,115,671</u>	<u>55,989</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Purchase of investments, net		(191,339)	(237,245)
Purchase of investment properties, net		(31,104)	(57,360)
Purchase of property and equipment, net		(211,039)	(32,769)
Net movement in investment in associates		(68,922)	(29,669)
Dividend income received		26,789	40,473
		<u>(475,615)</u>	<u>(316,570)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Issue of shares		-	306,312
Cash dividends paid		(111,498)	(69,839)
Cash received on cancellation of share options		31	266
Payment of Zakat		(7,558)	(5,804)
Net movement in treasury shares		(7,651)	1,310
		<u>(126,676)</u>	<u>232,245</u>
Net cash (used in) from financing activities			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		513,380	(28,336)
Cash and cash equivalents at 1 January		<u>854,805</u>	<u>883,141</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	<u>1,368,185</u>	<u>854,805</u>

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

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

1 ACTIVITIES

The consolidated financial statements of the group for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the banks' board of directors on 20 January 2009 and are subject to approval by the Central Bank of Kuwait. The general assembly of the equity holders of the bank has the power to amend these consolidated financial statements after issuance.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention

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

The accounting policies are consistent with those used in the previous year.

New and revised International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretation Committee Interpretations (IFRIC) issued, but not yet effective

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the bank for the year ended 31 December 2008 and its subsidiaries prepared to a date not earlier than three months of the bank's reporting date as noted in Note 20. All significant intra-group balances, transactions and unrealized profits are eliminated upon consolidation.

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

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

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

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

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

Short-term international murabaha

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

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

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

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

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

Impairment of financial assets

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

Impairment is determined as follows:

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

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

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

Recognition and derecognition of financial assets and financial liabilities

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial assets and financial liabilities (continued)

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

Financial guarantees

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

Leased assets

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

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

Available for sale investments

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

Investments in associates

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

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

Unrealized gains on transactions with associate are eliminated to the extent of the group's share in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognized in prior years no longer exist.

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

Trading properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Impairment of non-financial assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Property and equipment

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

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

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

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

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

Fair values

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

Investments

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

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

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

Other financial assets and liabilities

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

Investment properties

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

IFRS 2 "Share-Based Payment"

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

Share-based payment transactions

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

Equity-settled transactions

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

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

Revenue recognition

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

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

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

Foreign currency translation

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

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are included within net gain from dealing in foreign currencies in the consolidated income statement.

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

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the consolidated income statement.

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

Trade and settlement date accounting

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

Offsetting

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

Cash and cash equivalents

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

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the group and accordingly are not included in the consolidated balance sheet. These are disclosed separately in the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments

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

Impairment of investments

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

Classification of real estate property

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

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

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

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on finance facilities

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

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

3 INVESTMENT INCOME

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

4 IMPAIRMENT

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

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

Basic and diluted earnings per share are based on the profit for the year attributable to equity holders of the bank of KD 156,960 thousand (2007: KD 275,266 thousand) and the weighted average number of ordinary shares outstanding during the year of 2,057,501 thousand (2007: 1,999,211 thousand) excluding the weighted average number of treasury shares held by the group.

The earnings per share of the previous year has been restated for the bonus shares issued during the year ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

6 CASH AND CASH EQUIVALENTS

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

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

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

Included in the consolidated balance sheet as net balances:

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

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

7 RECEIVABLES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

7 RECEIVABLES (continued)

The distribution of receivables is as follows:

	<i>2008</i> <i>KD 000's</i>	<i>2007</i> <i>KD 000's</i>
Industry sector		
Trading and manufacturing	1,409,442	1,059,330
Banks and financial institutions	2,176,638	2,235,740
Construction and real estate	853,582	604,684
Other	639,233	239,732
	<u>5,078,895</u>	<u>4,139,486</u>
Less: provision for impairment	<u>(299,107)</u>	<u>(151,355)</u>
	<u>4,779,788</u>	<u>3,988,131</u>
	<i>2008</i> <i>KD 000's</i>	<i>2007</i> <i>KD 000's</i>
Geographic region		
Middle East	3,899,608	3,192,378
Western Europe	7,382	265,290
Other	1,171,905	681,818
	<u>5,078,895</u>	<u>4,139,486</u>
Less: provision for impairment	<u>(299,107)</u>	<u>(151,355)</u>
	<u>4,779,788</u>	<u>3,988,131</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

7 RECEIVABLES (continued)

At 31 December 2008, as per CBK regulations, non-performing finance facilities amounted to KD 642,168 thousand (2007: KD 156,031 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	<i>Pre-invasion KD 000's</i>	<i>Post liberation KD 000's</i>	<i>Total KD 000's</i>
2008			
Finance facilities	6,309	635,859	642,168
Provision for impairment	6,309	158,428	164,737
2007			
Finance facilities	6,368	149,663	156,031
Provision for impairment	6,368	71,866	78,234

The provision charge (release) for the year on unfunded facilities is KD (157) thousand (2007: KD 134 thousand). The available provision on unfunded facilities of KD 6,527 thousand (2007: KD 6,684 thousand) is included under other liabilities.

The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 2% to 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities amounting to KD 32 million (2007: KD 32 million) has been retained as general provision until a further directive from the Central Bank of Kuwait is issued.

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

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

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

8 LEASED ASSETS

The net investment in leased assets comprises the following:

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

Impairment on leased assets is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

8 LEASED ASSETS (continued)

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

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

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

9 INVESTMENTS

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

Included in managed portfolios is an amount of KD 27,952 thousand (2007: KD 36,535 thousand) which represents the group's investment in 17,469 thousand (2007: 12,956 thousand) of the bank's shares on behalf of depositors, equivalent to 0.85 % of the total issued share capital at 31 December 2008 (2007: 0.76%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

At 31 December 2008

10 INVESTMENTS IN ASSOCIATES

The major associates of the group are as follows:

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

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

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

<i>Acquisitions:</i>	<i>% Holding acquired</i>	<i>Purchase consideration KD 000's</i>	<i>Fair value of net assets KD 000's</i>	<i>Goodwill KD 000's</i>	<i>Country of registration</i>
Nafias Holding Company K.S.C.	20	15,834	15,469	365	Kuwait
Soukouk Real Estate Development Company K.S.C.	20	63,914	63,520	394	Kuwait
National Bank of Sharjah PJSC (through participation in rights issue)	-	25,523	25,523	-	UAE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

10 INVESTMENTS IN ASSOCIATES (continued)

<i>Disposals:</i>	<i>% holding sold</i>	<i>Carrying value (including goodwill) KD 000's</i>	<i>Sales consideration KD 000's</i>	<i>Gain on sale KD 000's</i>
Soukoku Real Estate Development Company	17	4,792	5,186	394
Kuwait Energy Holding Company	30	3,365	3,600	235
		<u>8,157</u>	<u>8,786</u>	<u>629</u>
			<i>2008</i>	<i>2007</i>
			<i>KD 000's</i>	<i>KD 000's</i>
<i>Share of associates' assets and liabilities:</i>				
Assets			840,416	763,083
Liabilities			(442,734)	(466,682)
Net assets			<u>397,682</u>	<u>296,401</u>
			<i>2008</i>	<i>2007</i>
			<i>KD 000's</i>	<i>KD 000's</i>
<i>Share of associates' revenue and results:</i>				
Revenue			117,734	93,167
Results			42,991	45,422

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

11 INVESTMENT PROPERTIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 PROPERTY AND EQUIPMENT

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

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

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

One of the subsidiaries holds aircraft fleet with carrying value of KID 145,865 thousand (2007: KID 162,580 thousand) acquired under finance leases. The aircraft are secured against the finance leases with the legal title of the aircraft being retained by the lender (Note 13). The residual value of the aircraft is estimated at approximately 30% (in aggregate) of the purchase cost of the aircraft fleet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

12 PROPERTY AND EQUIPMENT (continued)

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 117,714 thousand (2007: KD 154,083 thousand) and is receivable as follows:

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

13 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

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

Property and equipment include 14 aircraft acquired by a subsidiary under finance leases denominated in US Dollars with maturities varying between 5 and 12 years. The obligations under finance leases are secured by the aircraft (Note 12). The installments payable within one to five years are KD 83,179 thousand and installments payable after five years are KD 38,541 thousand.

14 DEPOSITORS' ACCOUNTS

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

- i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the bank under Islamic Shareea'a.
- ii) Investment deposits comprise Mustamera and Sedra deposits for unlimited periods and Tawfeer savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

14 DEPOSITORS' ACCOUNTS (continued)

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

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

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

15 FAIR VALUE RESERVE

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

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

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

Unrealized gains on revaluation of available for sale investments recognized directly in fair value reserve include KD 1,803 thousand (2007: KD 1,206 thousand) relating to unquoted equity investments resulting from the use of valuation techniques.

16 FOREIGN EXCHANGE TRANSLATION RESERVE

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

17 SHARE CAPITAL

Following approval of the ordinary and extraordinary general assembly meeting of the equityholders' of the bank held on 10 March 2008, the authorized share capital of the bank was increased from KD 171,535 thousand to KD 205,842 thousand by way of issuance of 20% bonus shares amounting to KD 34,307 thousand. Accordingly, the authorized, issued and fully paid-up share capital at 31 December 2008, comprises 2,058,415 thousand shares (31 December 2007: 1,715,350 thousand shares) of 100 fils each.

18 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The board of directors of the bank have proposed a cash dividend of 40% for the year ended 31 December 2008 (2007: 65%) and issuance of bonus shares of 12% (2007: 20%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equity holders of the bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 160 thousand (2007: KD 200 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equity holders of the bank.

19 RESERVES

In the ordinary and extraordinary general assembly meeting of the equity holders of the bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers to statutory reserve in excess of 10%. The extraordinary general assembly of the bank held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the profit for the year attributable to the equity holders of the bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the bank. As a result, an amount of KD 16,255 thousand equivalent to approximately 10% (2007: KD 28,474 thousand equivalent to approximately 10%), of the profit for the year (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve.

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

21% (2007: 35%) of the profit for the year attributable to the equity holders of the bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve.

The share premium balance is not available for distribution.

Kuwait Finance House K.S.C. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

20 CONSOLIDATED SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

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

21 CONTINGENCIES AND COMMITMENTS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

22 RELATED PARTY TRANSACTIONS

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

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

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

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

Compensation of key management personnel is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

23 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

31 December 2008	<i>Treasury</i>	<i>Investment</i>	<i>Retail and corporate banking</i>	<i>Other</i>	<i>Total</i>
Assets	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international murabaha	1,306,878	5,275	-	-	1,312,153
Receivables	725,311	710,186	3,284,736	59,555	4,779,788
Trading properties	-	57,590	-	-	57,590
Leased assets	-	117,888	1,063,937	-	1,181,825
Investments	-	1,038,602	-	-	1,038,602
Investments in associates	-	449,496	-	-	449,496
Investment properties	-	279,574	-	-	279,574
Other assets	15,885	309,624	63,001	97,203	485,713
Property and equipment	595	69,466	93,460	427,818	591,339
	<u>2,416,731</u>	<u>3,037,701</u>	<u>4,505,134</u>	<u>584,576</u>	<u>10,544,142</u>
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,595,452	-	-	-	1,595,452
Depositors' accounts	-	-	6,611,556	-	6,611,556
Other liabilities	22,097	34,387	166,073	171,476	394,033
Deferred revenue	355	-	343,802	269	344,426
Fair value reserve	-	11,394	-	-	11,394
Foreign exchange translation reserve	-	(7,548)	-	-	(7,548)
	<u>1,617,904</u>	<u>38,233</u>	<u>7,121,431</u>	<u>171,745</u>	<u>8,949,313</u>
Income	<u>19,663</u>	<u>220,956</u>	<u>623,288</u>	<u>20,946</u>	<u>884,853</u>
Impairment	<u>6,181</u>	<u>45,879</u>	<u>156,146</u>	<u>2,734</u>	<u>210,940</u>
Profit before distribution to depositors	<u>7,615</u>	<u>78,779</u>	<u>300,593</u>	<u>10,058</u>	<u>397,045</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

23 SEGMENTAL ANALYSIS (continued)

31 December 2007			<i>Retail and corporate banking</i>	<i>Other</i>	<i>Total</i>
Assets	<i>Treasury KD 000's</i>	<i>Investment KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Cash and balances with banks and financial institutions	553,565	-	-	-	553,565
Short-term international murabaha	1,051,922	15,369	-	-	1,067,291
Receivables	813,329	74,109	3,017,469	83,224	3,988,131
Trading properties	-	126,413	-	-	126,413
Leased assets	-	108,239	822,418	-	930,657
Investments	-	896,098	-	-	896,098
Investments in associates	-	341,279	-	-	341,279
Investment properties	-	247,300	-	-	247,300
Other assets	15,423	146,217	42,524	35,530	239,694
Property and equipment	609	36,515	102,086	268,278	407,488
	<u>2,434,848</u>	<u>1,991,539</u>	<u>3,984,497</u>	<u>387,032</u>	<u>8,797,916</u>
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,186,391	-	-	-	1,186,391
Depositors' accounts	-	-	5,361,155	-	5,361,155
Other liabilities	4,239	60,740	190,001	125,873	380,853
Deferred revenue	-	-	374,608	-	374,608
Fair value reserve	-	86,843	-	-	86,843
Foreign exchange translation reserve	-	1,972	-	-	1,972
	<u>1,190,630</u>	<u>149,555</u>	<u>5,925,764</u>	<u>125,873</u>	<u>7,391,822</u>
Income	<u>87,430</u>	<u>193,663</u>	<u>523,018</u>	<u>27,037</u>	<u>831,148</u>
Impairment	<u>(992)</u>	<u>7,199</u>	<u>24,075</u>	<u>7,897</u>	<u>38,179</u>
Profit before distribution to depositors	<u>60,737</u>	<u>134,539</u>	<u>363,342</u>	<u>18,783</u>	<u>577,401</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

23 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

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

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

24 CONCENTRATION OF ASSETS AND LIABILITIES

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

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

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

See Note 23 for distribution of assets by geographical areas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

24 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(b) The distribution of liabilities was as follows:

Geographic region	<i>Banking</i>	<i>Non-</i>	<i>Total</i>	<i>Banking</i>	<i>Non-</i>	<i>Total</i>
	<i>KD 000's</i>	<i>banking</i>	<i>2008</i>	<i>KD 000's</i>	<i>banking</i>	<i>2007</i>
		<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
The Middle East	6,864,896	277,953	7,142,849	5,502,977	272,422	5,775,399
North America	5,673	80,289	85,962	7,978	48,205	56,183
Western Europe	17,013	27,598	44,611	4,350	73,438	77,788
Other	1,261,327	66,292	1,327,619	986,760	32,269	1,019,029
	<u>8,148,909</u>	<u>452,132</u>	<u>8,601,041</u>	<u>6,502,065</u>	<u>426,334</u>	<u>6,928,399</u>
					<i>2008</i>	<i>2007</i>
					<i>KD 000's</i>	<i>KD 000's</i>
Industry sector						
Trading and manufacturing				1,278,497		816,167
Banks and financial institutions				4,145,157		3,333,307
Construction and real estate				313,182		261,090
Other				2,864,205		2,517,835
				<u>8,601,041</u>		<u>6,928,399</u>

25 FOREIGN CURRENCY EXPOSURE

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

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

26 RISK MANAGEMENT

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

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

26 RISK MANAGEMENT (continued)

a) Risk management structure

Board of directors

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

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

Risk management committee

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

Risk management unit

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

Treasury

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

b) Risk management and reporting systems

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

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

Risk mitigation

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

Excessive risk concentration

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

27 CREDIT RISK

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross (net of provisions), before the effect of mitigation through the use of master netting and collateral agreements.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

27 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client by geographical region and by industry sector. The maximum credit exposure to a single customer as of 31 December 2008 was KD 145,000 thousands (2007: KD 109,149 thousands) before taking account of collateral or other credit enhancements and KD 120,212 thousands (2007: KD 109,149 thousands) net of such protection.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

27 CREDIT RISK (continued)

Credit quality per class of financial assets

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

	<i>Neither past due nor impaired</i>			<i>Total 2008 KD 000's</i>
	<i>High grade 2008 KD 000's</i>	<i>Standard grade 2008 KD 000's</i>	<i>Past due or impaired 2008 KD 000's</i>	
Receivables:				
International murabahas	688,821	11,497	-	700,318
Local murabahas and wakala	362,758	2,780,102	645,943	3,788,803
Istisna'a and other receivables	27,971	247,885	14,811	290,667
	<u>1,079,550</u>	<u>3,039,484</u>	<u>660,754</u>	<u>4,779,788</u>
Leased assets	806,022	291,100	84,703	1,181,825
Investments - sukook	123,884	89,385	-	213,269
	<u>2,009,456</u>	<u>3,419,969</u>	<u>745,457</u>	<u>6,174,882</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008

27 CREDIT RISK (continued)

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

	<i>Less than 30 days 2008 KD 000's</i>	<i>31 to 60 days 2008 KD 000's</i>	<i>61 to 90 days 2008 KD 000's</i>	<i>Total 2008 KD 000's</i>
Local murabahas	226,346	67,951	19,399	313,696
Istisna'a and other receivables	14,320	2,206	946	17,472
Leased assets	807	34,262	16,068	51,137
	<u>241,473</u>	<u>104,419</u>	<u>36,413</u>	<u>382,305</u>
	<i>Less than 30 days 2007 KD 000's</i>	<i>31 to 60 days 2007 KD 000's</i>	<i>61 to 90 days 2007 KD 000's</i>	<i>Total 2007 KD 000's</i>
Local murabahas	98,403	26,227	8,160	132,790
Istisna'a and other receivables	27,034	2,074	1,139	30,247
Leased assets	12,943	9,331	10,797	33,071
	<u>138,380</u>	<u>37,632</u>	<u>20,096</u>	<u>196,108</u>

Collateral

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

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

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

The fair value of collateral that the group holds relating to finance facilities individually determined to be impaired at 31 December 2008 amounts to KD 48,793 thousand (2007: KD 45,484 thousand).

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

At 31 December 2008

28 LIQUIDITY RISK

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

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

	<i>2008</i>	<i>2007</i>
	%	%
31 December	24	26
Average during the period	24	33
Highest	27	42
Lowest	20	26

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

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At 31 December 2008

28 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2008 is as follows:

	<i>Within 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>After one year KD 000's</i>	<i>Total KD 000's</i>
Assets					
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international murabaha	1,312,153	-	-	-	1,312,153
Receivables	1,109,623	1,003,259	810,061	1,856,845	4,779,788
Trading properties	810	53,598	-	3,182	57,590
Leased assets	242,284	186,487	220,273	532,781	1,181,825
Investments	11,925	-	-	1,026,677	1,038,602
Investment in associates	-	-	-	449,496	449,496
Investment properties	-	-	-	279,574	279,574
Other assets	134,015	199,296	10,218	142,184	485,713
Property and equipment	-	-	47,928	543,411	591,339
	<u>3,178,872</u>	<u>1,442,640</u>	<u>1,088,480</u>	<u>4,834,150</u>	<u>10,544,142</u>
Liabilities					
Due to banks and financial Institutions	1,036,995	100,134	74,726	383,597	1,595,452
Depositors' accounts	3,002,372	153,188	35,416	3,420,580	6,611,556
Other liabilities	64,200	77,979	98,410	153,444	394,033
	<u>4,103,567</u>	<u>331,301</u>	<u>208,552</u>	<u>3,957,621</u>	<u>8,601,041</u>

Kuwait Finance House K.S.C. and Subsidiaries

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At 31 December 2008

28 LIQUIDITY RISK (continued)

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

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

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

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

	<i>On demand KD 000's</i>	<i>Less than 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>1 to 5 years KD 000's</i>	<i>Over 5 years KD 000's</i>	<i>Total KD 000's</i>
2008						
Contingent liabilities	838,959	49,710	122,055	137,954	80,246	1,228,924
Commitments	198,632	40,608	199,233	284,025	740,825	1,463,323
Total	<u>1,037,591</u>	<u>90,318</u>	<u>321,288</u>	<u>421,979</u>	<u>821,071</u>	<u>2,692,247</u>
2007						
Contingent liabilities	591,446	25,170	137,560	259,436	23,698	1,037,310
Commitments	151,073	12,425	23,177	420,022	654,862	1,261,559
Total	<u>742,519</u>	<u>37,595</u>	<u>160,737</u>	<u>679,458</u>	<u>678,560</u>	<u>2,298,869</u>

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

29 MARKET RISK

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

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

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

Non-trading market risk***Interest rate risk***

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

Currency risk

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

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

The tables below indicate the currencies to which the bank had significant exposure at 31 December 2008 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of available for sale investments).

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

29 MARKET RISK (continued)**Equity price risk**

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

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

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

Operational risk

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

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

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

30 CAPITAL MANAGEMENT

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

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

At 31 December 2008

30 CAPITAL MANAGEMENT (continued)**Capital adequacy**

	<i>Actual 2008 KD 000's</i>	<i>Actual 2007 KD 000's</i>
Tier 1 capital	1,512,704	1,294,594
Tier 2 capital	961	25,245
Total capital	1,513,665	1,319,839
Risk weighted assets	6,961,343	5,674,430
Total capital ratio	22%	23%
Minimum total capital ratio (required by the CBK)	12%	12%

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

31 MANAGEMENT OF PURCHASED DEBTS

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

32 FINANCIAL INSTRUMENTS

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

33 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the group at 31 December 2008 amounted to KD 1,137,988 thousand (2007: KD 486,825 thousand).

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

34 ADJUSTMENT TO FINANCING INCOME

Financing income has been reduced by KD 596 thousand during the year (2007: 556 thousand). The charge represents an adjustment arising from revised estimates of future cash flows from a portfolio of performing finance facilities that have had their terms modified during 2007.