Annual Report 2007

Kuwait Financial Centre

المركز
MARKAZ

H.H. SHEIKH SABAH AL-AHMAD AL-JABER AL-SABAH

The Amir of The State of Kuwait

H.H. SHEIKH NAWAF AL-AHMAD AL-JABER AL-SABAH

The Crown Prince

H.H. SHEIKH NASSER AL-MOHAMMED AL-AHMAD AL-SABAH

The Prime Minister

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BOARD OF DIRECTORS

Diraar Yusuf Alghanim	Chairman & Managing Director
Sheikh Humoud Sabah Al-Sabah	Vice Chairman
Faisal AbdulAziz Al-Jallal	Director
Ayman Abdulatif Alshaya	Director
Fahad Yaqoub Al-Jouan	Director
Ibrahim Mohammed Al-Ghanim	Director
Ahmad Mohammad Hasan	Director

BOARD STEERING COMMITTEE

Diraar Yusuf Alghanim	Chairman
Ayman Abdulatif Al-Shaya	Director
Fahad Yaqoub Al-Jouan	Director
Manaf AbdulAziz Alhajeri	General Manager

AUDIT COMMITTEE

Fahad Yaqoub Al-Jouan	Chairman
Faisal AbdulAziz Al-Jallal	Director
Ibrahim Mohammed Al-Ghanim	Director
Manaf AbdulAziz Alhajeri	General Manager

MANAGEMENT TEAM

Manaf A. Alhajeri	General Manager
Ali H. Khalil	Executive Vice President
Gopal Menon	Executive Vice President – International Investments
Khaled A. Chowdhury	Senior Vice President – Financial Management
Bassam N. Al-Othman	Senior Vice President – Real Estate (MENA)
M.R. Raghu	Senior Vice President – Research
Rasha A. Al-Hamad	Senior Vice President – Human Resources & Administration
Amani Al-Omani	Senior Vice President – Local & GCC Investments
Maha A. Imad	Vice President – Private Equity & Fund Administration
Carole Six	Vice President – Client Relations and Media & Communications
Leila Badine	Vice President – Markaz Qatar Branch
Nawaf H. Marafi	Vice President – Oil & Gas
Krishna I. Mohan	Head of Treasury - Treasury
Pradeep Rajagopalan	Assistance Vice President – Risk Management & Compliance

Dear Stakeholders,

GCC stock markets witnessed a substantial growth in 2007, while it was a fairly turbulent year in international markets. Across all asset classes, most of our local, GCC, and international products including real estate outperformed their respective benchmarks.

Markaz registered a net profit of KD 27.03 million or 65 fils per share during the year 2007 (13 fils in 2006). Fee income from asset management and investment banking activities remained strong totalling KD 15.70 million (KD 11.41 million in 2006). Unrealized investment profit totalled KD 4.56 million (unrealised loss of KD 7.64 million in 2006). Markaz assets under management totalled KD 1.30 billion at end of December 2007 (KD 1.18 billion in 2006).

The Board of Directors has proposed the distribution of a cash dividend equal to 25% of the par value or 25 fils per share, and a bonus share distribution of 15% for shareholders registered at the time of the General Assembly.

Major milestones during 2007 include the introduction of highly sophisticated investment products. The Real Estate Department launched Markaz Real Estate Opportunity Fund, a real estate development fund. The International Investment Department launched the IPO and Pre IPO Investment Program, in addition to the launch of Markaz US Multifamily Realty Investment Unit IV which benefits from opportunities arising as a result of receding US real estate. Regional expansion was also a major factor for 2007 featured in establishing companies in KSA, Jordan and Lebanon, where more expansions are in the pipeline.

As we approach our thirty fifth anniversary, we aim to meet the highest industry standards by offering unique and prudent investment solutions to our clients, concomitant with a research driven strategy that sustains our position as one of the leading investment institutions in the region.

Positive overall despite the challenges and turbulence

Renewed optimism; Another solid year

ASSET MANAGEMENT

Local & GCC Investments

The Local and GCC Investment Department's assets under management increased through adopting tactical & strategic investment allocation policies, which transferred the focus from the domestic capital market to a broader regional view by channelling assets to the GCC markets.

Local and GCC Markets were reinforced by strong fundamentals contributing to its growth in 2007. Higher crude oil prices, ample liquidity, governments' expenditure on infrastructure, IPOs, mergers & acquisitions, negative to flat correlation with other developed and emerging markets are some pertinent factors. Moreover, solid corporate results, reasonable valuations and steps taken toward privatization and reforms had a positive impact.

The department's notable performance in 2007 is confirmed by positive returns on all Local and GCC products, the majority of which outperformed their respective benchmarks. Markaz Gulf Fund posted a 48.4% gain, being our star performer and one of the best performing in its class where it outperformed the MSCI GCC Index which posted 44.8%. Markaz Fund for Excellent Yields 'Mumtaz' generated 44.4% outperforming the KIC Index by 13.9%. The Fund also won two Lipper- Reuters Fund awards for best performance: Best Equity Fund in Kuwait -3 years and Best Equity Fund in Kuwait- 5 years.

Looking ahead, we expect the market in 2008 to perform positively and we shall aim to benefit from this trend albeit with prudence and selectivity. This optimism is supported by the projected growth in the leading companies' profits, along with the passing of legislation that affects the markets positively.

More dynamic to counter the turbulence

International Investments/Investment Advisory Services

Despite a fairly turbulent year in international markets, Markaz was, once more, able to achieve superior performance through its dynamically managed asset allocation methodology.

The past year presented many difficulties, ranging from credit crunch/sub prime issues to fears of a looming US recession that rippled its way across the globe affecting most major indices. Markaz adapted to the situation and implemented tactical asset allocation, reducing exposure to the US, the market most affected by the sub prime issue, as well as Europe and Japan. By focusing on thematic investments and emerging markets; the International Investments team managed to avoid riskier situations and has generated alpha, enabling Markaz to outperform its benchmark by a clear margin of more than 8%.

Since its inception in May of 2007, Markaz's IPO/Pre-IPO Program has produced enviable results. Within its first seven months, the program accomplished returns of 23% appropriate to the selection of profitable investment opportunities across the globe, mainly in the US, GCC/MENA, and Asia.

Markaz's flagship international fund, Atlas Diversified Class, which invests in diversified asset classes and geographically diversified markets, produced superior returns due to its dynamic asset allocation and emphasis on specialized investment themes and emerging markets. At the same time, the Fund increased its exposure to Kuwait by 10%, to capitalize on the local stock market's growth, which proved beneficial. The fund posted returns of 17.90%, significantly surpassing Markaz Global Securities Index, its benchmark which posted 10.67%.

In spite of an unstable market in 2007, Atlas Fund of Hedge Funds recorded above average returns of 7.03%, in line with our expectations for the year.

Atlas ETFs Program, which invests in global indices and sectors, posted remarkable returns. The program outperformed the MSCI World Index, two-fold, achieving 14.18% for the year.

For 2008, we expect volatility to continue in global equity markets, especially in the first half of the year. However, more measures to be taken by the US Fed to reduce rates aggressively to stave off recessionary trends together with banks successfully completing recapitalization and commodity prices easing, will create an enhanced environment for investment. Emerging markets will most likely see a rise in inflation and a slower GDP growth; however, stock markets are expected to contribute reasonably good returns in lower double digits due to multiple expansions. Overall, we predict that the global markets will see returns in the 8-10% region.

In line with market demand, Markaz will be launching two products/funds based on Thematic and Islamic investments where great potential is seen in 2008 and beyond.

Reaping old rewards and new credit challenge

Private Equity

Markaz inaugurated the private equity program in 1997 and the company's prudent and enduring strategy has been rewarding.

Despite the credit crunch that emerged in the summer, US private equity funds raised USD 302 billion, of which 75% was geared for leveraged buyout and corporate finance funds. An increase in finances raised for distress-focused funds was noted, which saw nearly USD 45 billion committed to 22 funds.

Markaz portfolio of international private equity fund investments revealed a robust performance, generating a total return of 20.58% on the invested capital during 2007. Throughout the year, we invested into six funds encompassing various strategies, distressed-debt, growth capital, mid-market buyout, and venture. The commitments spanned the US, Europe and Asia.

In 2008, we shall seek to commit to funds that would benefit from the consequences of the

credit crunch and the boom recently enjoyed by the buyout industry which is now ripe with over-leveraged companies, mainly in the US and Europe; in addition to expanding our exposure to

Private Equity (Cont'd)

emerging markets such as the South East Asian markets, Eastern Europe, Latin American and MENA. We shall be targeting global emerging markets funds, US and European mezzanine and distressed debt/restructuring funds, and continue to source growth capital mid-market funds.

Stability under a challenging monetary climate

Treasury

During the year, the Treasury Department established new correspondent banking relationships and strengthened existing relationships by adding multiple facility agreements. With this vigorous network of local and international banks, Markaz is in a position to offer our clients right of entry to all major markets.

Markaz's KD Money Market Fund- Idikhar continues to be one of the best performers in the local market where it regularly pays investors an average return of 6.60% per annum, higher than the 3-month KIBOR (3 Month Average is 4.43%).

Our money market funds are designed to function as cash management tools and at the same time to benefit from the returns without losing time value of the investment.

INVESTMENT BANKING

Selective access and execution

Corporate Finance

The region continues to undergo substantial change in the business landscape; the most important issue being the need for companies to increase their focus on their core businesses and expand across borders throughout the GCC and the MENA regions. Corporate Finance remains focused on providing such companies with debt and equity financing, while counselling them on creative financial and corporate structures that best suit their strategies.

Over the year, the Department executed several advisory mandates including the listing of Vending Network Company; the restructuring of Al-Waseet International, a leading media company in the region; advising major contracting companies on their financial structure, including the sale /lease back of assets; which freed up capital resources necessary for the growth of such companies.

Markaz managed and underwrote the capital increase for Kuwait Privatization Projects Holding Company ("KPPHC"); which provided the company with over KD 60 million in equity financing. Structured, managed, and underwrote a USD 50 million sukuk issue for Kuwait Resort Company ("KRC"); which was placed regionally. Markaz was also mandated by International Investment Group ("IIG") to advise and act as the security agent for the USD 200 million convertible sukuk.

Looking forward, we are very optimistic that over the foreseeable future, GCC companies will have very favorable growth prospects. The fundamentals in the region remain extremely healthy, fueled by the strong demand from a young population, and the launch of large infrastructure projects. To cater to the growth in demand, companies will need to improve their capabilities, grow in size, and improve their effectiveness. We see an increased need for non-conventional financing; such as mezzanine financing, convertible debt, and other hybrid instruments. We intend to expand our role from advisory, to becoming principle investors from our proprietary funds as well as from clients' funds.

Maintaining the innovative momentum

Structured Finance

Being the pioneer of the derivatives market in Kuwait, Markaz understands the importance of a developed derivatives market and continues its efforts to increase the presence of the derivatives and structured products in the region. Markaz's Structured Finance team continues to be the only market maker for Options at the Kuwait Stock Exchange, entailing the high level of skills, experience and resources acquired by Markaz to perform such operations with high level of professionalism.

We have increased the number of stock covered in the Options Market at the Kuwait Stock Exchange from 40 (2006) to 55 (2007). These 55 Stocks are among the most liquid stocks listed at the Kuwait Stock Exchange covering every sector with a couple of Non-Kuwaiti GCC companies.

Whilst we continue our drive to expand our derivatives' capability regionally, dealing with legal and regulatory constraints will remain the primary challenge to our progress.

The Structured Finance team continues to provide our clients with innovative need based structured solutions and fulfil its responsibilities to develop the derivatives market in Kuwait.

Our target for 2008 is to expand our products range to include put options, index options and to allow investors to write options through the market maker.

New market dynamics

MENA Real Estate

Markaz real estate activity gained a series of achievements in 2007 on the local and MENA levels. These achievements are portrayed in the launching of new investment products and regional expansions.

Real estate continues to be attractive in most of the region emanating from strong fundamentals namely economic growth, liquidity, demographics, and government policies. Conversely, Public-Private Partnership for Infrastructure is proving itself an attractive asset class to investors as a source of relatively safe and stable income and attractive to governments as a means of financing infrastructure projects in addition to aligning interests of both Private and Public sectors.

In 2007, The Real Estate Department launched Markaz Real Estate Opportunity Fund (MREOF) a close-ended Shari'ah compliant real estate development fund focusing on the MENA region. Markaz secured projects for MREOF before the launch of the fund which enabled it to cover most of the capital during the first closing.

MREF, Markaz Real Estate Fund, an open-ended Shari'ah compliant fund that invests in income generating properties within Kuwait and pays monthly dividends, yielded a 19.2% return for 2007, and an annual CAGR of 13.3%. The Fund secured the backing of all its investors to renew its term by an additional five-year period. The fund will use the cash available to acquire new properties, generated from the liquidation of properties prior to the extension of its term.

In 2007, we presented our investors with an investment opportunity in Lusail Qatar in partnership with Al Rayan Bank through a fund developing the infrastructure of Lusail waterfront area. In the meantime, we activated the work on several new products that will be offered to investors during the first half of 2008.

On the Infrastructure front, we received the Markaz Board approval to pursue such projects mainly in the power, water and transportation sectors. For that purpose, we signed several MOUs with partners and developers to bid on projects being offered throughout the region.

For 2008, we believe the Real Estate sector will continue to grow and perform robustly on the back of prevailing strong fundamentals. As for Infrastructure, we believe this sector will gain momentum attracting more attention and investments in the years to come.

Timing the cycle

International Real Estate

The fundamentals for the US Commercial Real Estate Market still remain strong despite the sub-prime mortgage crisis witnessed in the residential market. Healthy corporate profits, resilient consumer expenditures, flexible employment growth, favourable demographics and strong influx of immigrants, leading to growth in rents. This outlook has translated into further increase in valuations of properties in 2007.

In order to benefit from the increase in valuations, in June 2007 we sold the Markaz BBK Retail Realty Investment Unit II, a fund comprising a portfolio of seven retail centres across the US, to

International Real Estate (Cont'd)

a commingled fund. The sale delivered a gross IRR of 27%, a net IRR of approximately 20% to investors and a substantial incentive fee to Markaz.

Two other funds managed by Markaz – the Markaz US Industrial Realty Investment Unit I and the Markaz BBK US Retail Realty Investment Unit III – continue to operate according to projections, delivering cash-on-cash yields since inception of approximately 9.5% and 7.5%, respectively.

With regard to the future, we are actively pursuing the apartment sector in the US as we believe it will be a major beneficiary of the subprime crisis and the above mentioned fundamentals. To meet this objective, we have seed financed three apartment development projects where it is anticipated that these projects will be rolled over into a new fund in 2008. As part of our expansion strategy, we are also seeking to enter new markets in Europe and Asia where we intend to partner with experienced local real estate companies in order to deliver innovative products to our investors.

Tip of the iceberg

Oil & Gas

The Department manages Markaz Energy Fund (MEF), an open ended fund established in 2006 with a variable capital of up to 50 million KD. The flagship product of the Oil and Gas department seeks to achieve outstanding returns by selectively investing across the exploration & production, midstream, downstream, and petrochemicals segments of the Gulf Region's energy value chain. Since inception, MEF has achieved 8% return. It is important to mention that the unlisted fund holdings are valued at cost as per its Articles of Association and thus may not reflect the fair market value.

During 2007, the fund invested in Kuwait First Transport Company K.S.C.C. (KFTC), through participation in its capital increase alongside other institutional investors. KFTC has engaged in financing of heavy equipment, leasing activities primarily for equipment in Oil and Gas construction projects, and has entered into its first equipment leasing transaction worth USD97 million with the Consolidated Contractors International Company (CCC) through its Bahraini subsidiary, Maleq Leasing Company B.S.C.

MEF has capitalized on the encouraging market conditions featured in attractive valuations of energy stocks by investing in such listed energy stocks in the GCC and international markets. These investments were weighted towards the drilling and petrochemical segments amongst others. The Fund has taken a strategic stake in Independent Petroleum Group S.A.K. (IPG). MEF also participated in the IPO of Galfar Engineering & Contracting Company in Oman, where a significant portion of its business is related to the Oil and Gas sector.

In 2007, an agreement was formulated between MEF and the National Offset Company to establish a mechanism that will help foreign firms fulfil their offset obligations through the Fund.

New footprints

MARKAZ REGIONAL EXPANSION

Emanating from its belief in the importance of actual and permanent presence in targeted markets, Markaz has established Markaz Real Estate Investment Company, a fully owned subsidiary of Markaz based in Riyadh. The company heralded its activities by announcing the construction of a hotel in the Saudi capital jointly with local partners.

Markaz has also established Markaz Real Estate Development Company, a fully owned subsidiary of Markaz based in Amman, to proceed in executing several real estate projects in Jordan.

Furthermore, 2007 saw the establishment of a number of real estate joint ventures in Lebanon together with the establishment of the office in Beirut. Also, establishment of an office in the Algerian capital was in its final stages at the close of the year.

Building the business

Markaz Branch in the State of Qatar

While there is growing competition in the financial services arena from local, regional and international firms, particularly under the Qatar Financial Centre jurisdiction, our objective is to enhance Qatari high net worth investors' perception of Markaz in Qatar in order to secure investment banking and investment advisory contracts.

Markaz was designated as Co-Lead Manager in the private placement of 20 million shares of Lusail Waterfront Investment Company. The company is a vehicle established to assist in developing the Waterfront District in the Lusail Project in Doha, Qatar. The size of the plot is approximately 3.6 million square feet; the infrastructure of the land will be developed by Qatari Diar Real Estate Investment Company for a period of three years. The project will have an expected return in the region of 79% on investment.

In 2007, and with perseverance and patience, we built long term relationships with both institutional and high net worth individuals.

We intend to develop and expand our business in 2008 and to build on 2007 experiences.

SUPPORT DEPARTMENTS

Bringing the important issues to the front

Research

Markaz strategic research is positioned to provide prudent investment opinions to its clients. It aims to be thematic in selecting research ideas with a clear focus on investment actions and merits. Being a regionally focused company, Markaz research is also biased towards GCC and MENA and issues confronting the region. However, the aim is to continuously benchmark the region with other developed and emerging market peers in order to obtain the requisite positioning. Markaz research team uses highly specialized databases, both outsourced and developed in-house, in order to be statistically endowed in its presentations and analysis. The professional team also treasures the usage of advanced quantitative finance techniques to the extent they can be successfully adapted to the region.

During 2007, Markaz strengthened its activity in publishing researches and analysis with themes that are relevant to Markaz business. This provides the investment decision-making process with a strong base, and a clear vision. Research publications spanned topics covering asset allocation, volatility, derivatives, asset management, regulatory issues and emerging markets. The research division also made progress in terms of adopting modeling techniques in the sphere of asset allocation.

Markaz launched new research concepts, such as “MVX”, a new innovative index to measure stock market volatility in the emerging markets and GCC region, and Markaz GCC Asset Allocation, a monthly research that recommends asset allocation on all the GCC stock markets based on an in-house developed model.

Refining service culture

Client Relations

2007 has been a year of diversification for the Client Services Department since we were able to broaden our client base in the GCC and Europe and to offer a more diversified range of asset classes (IPOs, Real Estate deals, GCC portfolios).

Client relations are always foremost on our agenda; due to the preeminence of the majority of our clients (institutions and High Net Worth Individuals), we are extremely vigilant in recruiting qualified Relationship Managers and in providing them with the right training. We are proud to announce that all our Account Managers have been certified as ‘Chartered Wealth Managers’ by the internationally renowned AAFM and are well equipped to face the upcoming challenges of 2008, be it volatile market conditions, increased competition, or progressively more sophisticated clients.

Reaching out

Media & Communications

2007 has been a year of achievements for Media & Communications. Initiatives undertaken by the department include new projects deemed essential for Markaz marketing strategy. Media coverage was increased through Markaz first corporate campaign, enhanced exposure in the press and outdoor placards, coupled with more intensive public relations activities. Changing media trends to compete with current demands created a compelling case for having a stronger TV presence and highlighted the importance of electronic media. A digital era has begun where the electronic media is proving to be indispensable. Consequently, a brand new state-of-the-art website was launched which provides clients and visitors with updated news, researches and product performance updates and introduced a first for the region, podcasting. These are major milestones for Markaz in terms of communications and will enable us to increase our brand awareness in the whole region.

Markaz roundtable, the first of its kind, was organized in December 2007; this closed-door panel on the role of institutional investors and the future of global growth and the challenges faced by GCC countries brought the top echelon of intelligence in the investment scene from around the globe: Credit Agricole Asset Management, OPEC, Mckinsey, Standard Chartered Bank, Investec, Qatar Financial Centre Regulatory Authority, Beltone Financial, MIBC, & Ask Investment Managers. The event was moderated by Mr. Richard Banks, Euromoney Conferences. Additionally, the Media & Communications team endorsed the management's expertise by arranging speaking opportunities and sponsorships at high level conferences.

Finally and very importantly, throughout the year, Markaz was involved in many corporate social responsibility campaigns. These causes spanned the social, sports and educational sectors in Kuwait and elsewhere which are inline with Markaz mission of giving back to society.

Bonding with the world and managing the growth

Corporate Governance and Risk Management

Markaz' risk management and internal controls framework enables us to manage all major aspects of our business through an integrated planning and review process that includes strategic, financial, and risk planning. The systems are designed to manage risks to achieve Markaz' business objectives. Markaz' risk management strategies are geared specifically for the unique risks and opportunities presented in the high growth sectors in GCC and rest of the world.

The operational preparation of the Qatar branch was further reinforced by the issuing of a certificate of operation by the regulators. During the year, Markaz's risk management capabilities were enhanced by strengthening the systems and processes to prevent money laundering in line with anti money laundering and terrorist financing regulations.

The backbone

IT Department

As Markaz expands to new regions around the world, the IT Department successfully lays the foundation for a seamless and unified network mesh that transcends physical barriers, providing a secure system of communication for what is most valuable to Markaz: Information, Communication and Collaboration.

Adopting the standards

Financial Management Department

The Financial Management Department ensures optimum control over all financial dealings. The department's main objective is to present an accurate financial position to the Management, Board of Directors, Shareholders, Creditors and other potential users to evaluate the precise financial proficiency of the company and that of its subsidiaries and branches.

The department continues to ensure compliance with the regulatory authorities and plays a vital role in the growth and success of Markaz by providing relevant financial information.

The real capital

Human Resources

The Human resource department has undertaken a number of initiatives during 2007 including the completion of the first phase of a major compensation and rewards project. This scheme helped to categorize new job descriptions for all Markaz staff, evaluating existing Markaz positions through the Markaz Job Evaluation committee consisting of HRD and all Heads of Departments plus the consulting team and developed a new framework for the Markaz position matrix based on the JE ratings and finally devised a new compensation structure based on A Market Compensation Report.

The department continues to supervise staff career development, accessing world class professional training programs and conducting internal training seminars.

MARKAZ'S STRATEGIC OUTLOOK FOR 2008

Asset management industry in Kuwait and selective parts of the GCC region is evolving into a more diverse role enabling it to serve the institutions enjoying huge savings through an efficient redeployment of capital towards lucrative opportunities. The region is experiencing a formidable change in terms of social, demographic, regulatory and economic issues. It is becoming more and more globalized as both the regional and global investors aggressively move capital in different directions. The status quo of the region has transformed from being a mere exporter of capital to that of both recipient and exporter of capital. Within the evolving dynamics, our strategic outlook for 2008 can be described as follows:

Focused approach in our sourcing of opportunities across public markets, private equity, real estate and infrastructure; Expanding our reach in the MENA region (with emphasis on North Africa) and emerging markets; Last but not least, maintaining our leadership in terms not only of size and performance but also credibility, innovation while bridging the industry standard gap with best practices.

We would like to take this opportunity to thank our Shareholders and Clients alike for their highly appreciated support and to our staff for their dedication and relentless effort to achieve the Company's ambitions. We also extend our thanks to the regulatory authorities for their continued support and guidance.

The Board of Directors

27 Feb 2008

INDEPENDENT AUDITORS' REPORT

The Shareholders
Kuwait Financial Centre S.A.K (Closed)
Kuwait

Report On The Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Financial Centre S.A.K (Closed) ("the Parent Company") and subsidiaries (together referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility For The Consolidated Financial Statements.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the State of Kuwait.

Report On Other Legal And Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Parent Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Parent Company, and the accounting information given in the board of directors' report agrees with the books of account.

We have not become aware of any contravention, during the year ended 31 December 2007, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Parent Company's articles and memorandum of association, or 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, that would materially affect the Group's activities or its financial position.

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

Anwar Y. Al-Qatami, F.C.C.A.
License No 50-A
Grant Thornton - Anwar Al-Qatami & Co.

Kuwait

12 February 2008

CONSOLIDATED STATEMENT OF INCOME

31 DECEMBER 2007

	Notes	2007 KD 000's	2006 KD 000's
Income			
Interest income	6	2,104	2,234
Dividend income	7	304	624
Management fees and commission	8	15,700	11,412
Profit / (loss) on sale of investments at fair value through statement of income		7,607	(1,291)
Unrealised gain / (loss) on investments at fair value through statement of income	9	4,561	(7,640)
Profit on sale of available for sale investments		7,904	7,243
Impairment in value of available for sale investments		(195)	(137)
Foreign exchange (loss) / gain		(824)	159
(Provision) /reversal of provision for credit losses		(145)	113
Other income		-	28
		37,016	12,745
Expenses and other charges			
General and administrative expenses	10	6,567	5,233
Finance costs	11	2,310	1,867
		8,877	7,100
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Directors' remuneration, National Labour Support Tax (NLST) and Zakat		28,139	5,645
Contribution to KFAS		(253)	(53)
Directors' remuneration		(140)	(105)
National Labour Support Tax		(699)	(137)
Provision for Zakat		(18)	-
Profit for the year		27,029	5,350
Attributable to:			
Equity holders of the Parent Company		27,017	5,346
Minority interest		12	4
		27,029	5,350
Earnings per share attributable to equity holders of the Parent Company (Fils)	13	65	13

The accompanying notes set out on pages 19 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATE BALANCE SHEET

	Notes	2007 KD 000's	2006 KD 000's
Assets			
Bank balances and cash	14	1,474	1,891
Time deposits	14	956	1,115
Investments at fair value through statement of income	15	66,978	51,842
Accounts receivable and other assets	16	12,211	4,064
Murabaha receivables	17	-	123
Short term financing	18	5,207	-
Loans to customers	19	20,388	16,439
Available for sale investments	20	76,829	66,704
Investment properties	21	36	36
Property under development	22	3,065	-
Property and equipment		574	269
Total assets		187,718	142,483
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions	14	432	12
Accounts payable and other liabilities		5,336	3,345
Dividends payable		424	562
Short-term borrowings	23	22,990	32,894
Bonds	24	27,300	-
Total liabilities		56,482	36,813
Capital and reserves			
Share capital	25	44,000	44,000
Share premium	26	7,902	7,902
Legal reserve	27	11,870	9,056
Voluntary reserve	28	11,647	8,833
Treasury shares	29	(11,479)	(9,067)
Treasury shares reserve		7,973	7,973
Fair value reserve	30	22,657	17,534
Retained earnings		36,600	19,385
Equity attributable to equity holders of the Parent Company		131,170	105,616
Minority interest		66	54
Total equity		131,236	105,670
Total liabilities and equity		187,718	142,483

Diraar Yusuf Alghanim
Chairman & Managing Director

Manaf Abdul Aziz Al-Hajri
General Manager

The accompanying notes set out on pages 19 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Parent Company									Minority interest	Total
	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Retained earnings	Sub Total		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at 1 January 2006	40,000	7,902	8,492	8,269	(2,247)	7,973	19,431	38,934	128,754	-	128,754
Net gain on available for sale investments	-	-	-	-	-	-	5,209	-	5,209	-	5,209
Net income recognised directly in equity	-	-	-	-	-	-	5,209	-	5,209	-	5,209
Transfer to statement of income on sale available for sale investments	-	-	-	-	-	-	(7,243)	-	(7,243)	-	(7,243)
Transfer to statement of income on impairment of available for sale investments	-	-	-	-	-	-	137	-	137	-	137
Profit for the year	-	-	-	-	-	-	-	5,346	5,346	4	5,350
Total recognised income and expense for the year	-	-	-	-	-	-	(1,897)	5,346	3,449	4	3,453
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	50	50
Dividends	-	-	-	-	-	-	-	(19,767)	(19,767)	-	(19,767)
Issue of bonus shares	4,000	-	-	-	-	-	-	(4,000)	-	-	-
Transfer to reserves	-	-	564	564	-	-	-	(1,128)	-	-	-
Purchase of treasury shares	-	-	-	-	(6,820)	-	-	-	(6,820)	-	(6,820)
Balance at 31 December 2006	44,000	7,902	9,056	8,833	(9,067)	7,973	17,534	19,385	105,616	54	105,670

CONSOLDATE STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Parent Company									Minority interest	Total
	Share capital	Share premium	Legal reserve	Voluntary reserve	Treasury shares	Treasury shares reserve	Fair value reserve	Retained earnings	Sub Total		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at 1 January 2007	44,000	7,902	9,056	8,833	(9,067)	7,973	17,534	19,385	105,616	54	105,670
Net gain on available for sale investments	-		-	-	-	-	12,832		12,832		12,832
Net income recognised directly in equity	-	-	-	-	-	-	12,832	-	12,832		12,832
Transfer to statement of income on sale of available for sale investments	-	-	-	-	-	-	(7,904)	-	(7,904)	-	(7,904)
Transfer to statement of income on impairment of available for sale investments	-	-	-	-	-	-	195	-	195	-	195
Profit for the year	-	-	-	-	-	-	-	27,017	27,017	12	27,029
Total recognised income and expense for the year							5,123	27,017	32,140	12	32,152
Dividends (Note 31)	-	-	-	-	-	-	-	(4,174)	(4,174)	-	(4,174)
Transfer to reserves	-	-	2,814	2,814	-	-	-	(5,628)	-	-	-
Purchase of treasury shares	-	-	-	-	(2,412)	-	-	-	(2,412)	-	(2,412)
Balance at 31 December 2007	44,000	7,902	11,870	11,647	(11,479)	7,973	22,657	36,600	131,170	66	131,236

The accompanying notes set out on pages 19 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2007 KD 000's	2006 KD 000's
OPERATING ACTIVITIES			
Profit for the year		27,029	5,350
Adjustments for:			
Depreciation		153	116
Finance costs		2,310	1,867
Profit on sale of available for sale investments		(7,904)	(7,243)
Impairment in value of available for sale investments		195	137
Reversal of provision / (provision) for credit losses		145	(113)
Dividend income		(304)	(624)
Interest income		(2,104)	(2,234)
		19,520	(2,744)
Changes in operating assets and liabilities:			
Investments at fair value through statement of income		(15,136)	7,953
Accounts receivable and other assets		(7,772)	1,627
Loans to customers		(4,094)	5,453
Increase in Short term financing		(5,207)	-
Accounts payable and other liabilities		1,991	(1,451)
Net cash from operating activities		(10,698)	10,838
INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash		-	50
Purchase of property and equipment		(458)	(113)
Purchase of property under development		(3,065)	-
Purchase of available for sale investments		(17,196)	(13,751)
Proceeds from sale of available for sale investments		19,903	12,317
Murabaha financing		123	163
Purchase of investment properties		-	(3,904)
Proceeds from disposal of investment properties		-	3,904
Dividend received		304	624
Interest received		1,729	2,234
Net cash from investing activities		1,340	1,524
FINANCING ACTIVITIES			
Purchase of treasury shares		(2,412)	(6,820)
Dividends paid		(4,312)	(19,520)
Increase in short-term borrowings		(9,904)	15,255
Proceed from issue of bonds		27,300	-
Finance costs paid		(2,310)	(1,867)
Net cash from financing activities		8,362	(12,952)
Net decrease in cash and cash equivalents		(996)	(590)
Cash and cash equivalents at beginning of the year		2,994	3,584
Cash and cash equivalents at end of the year	14	1,998	2,994

The accompanying notes set on pages 19 to 42 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

1. Incorporation and activities

Kuwait Financial Centre – S.A.K. (Closed), the Parent Company, is a closed shareholding company incorporated in 1974 in accordance with the Commercial Companies Law in the State of Kuwait. The Parent Company was listed on the Kuwait Stock Exchange on 7 April 1997 and is governed under the directives of the Central Bank of Kuwait.

The Group comprises the Parent Company and its subsidiaries. Details of the subsidiaries are set out in Note 5.

The principal activities of the Group are investment management, corporate financing, investment and financial advisory services, private equity funds, mutual funds and real estate funds management, money market and foreign exchange.

The address of the Parent Company's registered office is P.O. Box 23444, Safat 13095, State of Kuwait.

The consolidated financial statements of the Group for the year ended 31 December 2007 were authorised for issue by the Parent Company's board of directors on 12 February 2008 and are subject to the approval of the general assembly of the shareholders.

2. Adoption of new and revised Standards

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

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital (see note 37).

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

Standards and Interpretations in issue not yet adopted

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

• IAS 23 (Revised) Borrowing Costs	Effective for annual periods beginning on or after 1 January 2009
• IFRS 8 Operating Segments	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 11 IFRS 2: Group and Treasury Share Transactions	Effective for annual periods beginning on or after 1 March 2007
• IFRIC 12 Service Concession Arrangements	Effective for annual periods beginning on or after 1 January 2008
• IFRIC 13 Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that when adopted the above Standards and Interpretations will have no material financial impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2006.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Basis of preparation

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

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain 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 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company and are prepared under the historical cost convention, except for certain investments held at fair value through statement of income and certain available for sale investments that are stated at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). Control is achieved where the Parent Company 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 effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount. Murabaha income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

Dividend income is recognised when the right to receive payment is established.

Portfolio management fees and commission income is recognised when earned.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are translated into KD which is the functional currency of the Parent Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into KD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the period in which the foreign operation is disposed of.

Finance costs

Interest on borrowings is calculated on the accrual basis and is recognised in the consolidated statement of income in the period in which it is incurred.

Share based payments

The Group provides certain employees with the ability to purchase the Parent Company's shares from its treasury shares. The exercise price is between the book value at the end of the each year and average cost of treasury shares. The resulting difference between the exercise price and the market value of the shares at that date is treated as a discount.

The fair value determined at the grant date of the share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of income over the remaining vesting period, with a corresponding adjustment to the accounts payable and other liabilities.

3. Significant accounting policies (Cont'd)

Property, equipment and depreciation

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in the consolidated statement of income in the period in which they arise.

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through statement of income, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through statement of income' ("FVTSI"), 'held-to-maturity investments', 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTSI.

Cash and cash equivalents

Cash and cash equivalents as stated in the consolidated statement of cash flows comprise bank and cash balances, time deposits less due to banks and other financial institutions.

Financial assets at fair value trough statement of income ("FVTSI")

FVTSI are initially recognised at fair value excluding transaction costs. Financial assets are classified as at FVTSI where the financial asset is either held for trading or it is designated as at FVTSI.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or

- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

- A financial asset other than a financial asset held for trading may be designated as at FVTSI upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTSI.

After initial recognition, financial assets at FVTSI are remeasured at fair value. Fair value is determined in the manner described in note 37. Gain or loss arising either from sale or changes in fair value on remeasurement is recognised in the consolidated statement of income.

Available for sale financial assets ("AFS")

AFS investments are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition. After initial recognition, AFS investments are remeasured at fair value except for investment in equity securities that do not have active market and whose fair value cannot be reliably measured, which are carried at cost.

Fair value is determined in the manner described in note 37. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in the consolidated statement of income for the period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the consolidated balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated statement of income, and other changes are recognised in equity.

Loans to customers

Loans to customers originated by the Group by providing money directly to the borrower and that have fixed or determinable payments that are not quoted in an active market are classified as "loans to customers". Loans are measured at amortised cost using the effective interest method, less any impairment. Provision for credit risk is established to meet any decline in value.

3. Significant accounting policies (Cont'd)

Derecognition of financial asset

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

Impairment of financial assets

Financial assets, other than those at FVTSI, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

· significant financial difficulty of the issuer or counterparty; or

· default or delinquency in interest or principal payments; or

· it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and loans to customers, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable or loan to customer is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through consolidated statement of income are not reversed through consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as “Bond” and “Short term borrowings”

Financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with finance costs recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating finance costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group, obligations are discharges, cancelled or they expire.

3. Significant accounting policies (Cont'd)

Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares),

which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Related party transactions

Related parties consist of directors, executive officers, their close family members and companies of which they are principal owners. All related party transactions are conducted on an arm's length basis and are approved by management.

Fiduciary assets

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

Zakat

Effective 10 December 2007, the Group has 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 statement of income.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting polices, which are described in note 3, management is required to make judgements, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

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;

- 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.

Critical judgements in applying accounting polices

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of real estate property

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

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

4. Critical accounting judgements and key sources of estimation

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

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held at fair value through statement of income, held to maturity or available for sale.

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

Classification of investments as investment at fair value through income statement depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through statement of income. All other investments are classified as available for sale.

Impairment of investments

The Group treats the investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

5. Subsidiaries

Name of subsidiary	Country of incorporation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Margulf Management Inc	USA	100%	100%	Asset management
KFC Lone Star, Inc	USA	100%	100%	Asset management
KFC Lone Star 1, Inc.	USA	100%	100%	Asset management
First Management and Economic Consultancy Company–K.S.C. (Closed)	Kuwait	100%	100%	Economic Consultancy
Marsoft for Computer Programming, Operations and Consultancy Services Company–W.L.L.	Kuwait	67%	67%	Computer Consultancy

6. Interest income

	2007 KD 000's	2006 KD 000's
Time deposits	236	154
Investments at fair value though statement of income	207	131
Short term financing	138	-
Murabaha receivables	5	12
Loans and advances	1,518	1,937
	2,104	2,234

7. DIVIDEND INCOME

	2007 KD 000's	2006 KD 000's
Investments at fair value through statement of income	236	409
Available for sale investments	68	215
	304	624

8. Management fees and commission

Management fees relates to income arising from the Group's management of portfolios, funds, custody and similar trust and fiduciary activities.

9. Unrealised gain / (loss) on investments at fair value through statement of income

	2007 KD 000's	2006 KD 000's
Change in fair value of trading securities	361	(1,805)
Change in fair value of investments designated as investments at fair value through statement of income	4,200	(5,835)
	4,561	(7,640)

10. General and administrative expenses

General and administration expenses include the following:

	2007 KD 000's	2006 KD 000's
Staff costs	4,372	3,074
Depreciation	153	116

11. Finance costs

	2007 KD 000's	2006 KD 000's
Bonds	895	-
Short term borrowings	1,406	1,862
Due to banks	9	5
	2,310	1,867
Interest expense on financial liabilities at amortised cost	2,310	1,867

12. Net gain or loss on financial assets

	2007 KD 000's	2006 KD 000's
Time deposits	236	154
Investments at fair value through statement of income	12,611	(8,391)
Available for sale investments	7,777	7,321
Murabaha receivables	5	12
Loans and advances	1,373	2,050
Short term financing	138	-
	22,140	1,146

13. Earnings per share attributable to equity holders of the parent company

	2007 KD 000's	2006 KD 000's
Earnings per share attributable to equity holders of the Parent Company is calculated as follows:		
Profit for the year attributable to equity holders of the Parent Company	27,017	5,346
Weighted average number of shares outstanding excluding treasury shares (thousands)	416,691	426,281
Earnings per share (fils)	65	13

14. Cash and cash equivalents

	2007 KD 000's	2006 KD 000's
Bank balances and cash	1,474	1,891
Time deposits	956	1,115
Less: Due to banks and other financial institutions	(432)	(12)
	1,998	2,994

The Group's time deposits yield interest at an average rate of 4.875% per annum (2006:5.000% per annum) and mature within one month from the date of deposit.

15. Investments at fair value through statement of income

	2007 KD 000's	2006 KD 000's
Trading:		
Local quoted securities and managed funds	9,266	6,119
Foreign quoted securities and managed funds	752	1,312
Designated on initial recognition:		
Local quoted securities and managed funds	48,417	39,160
Foreign quoted securities and managed funds	2,129	1,339
Fixed income securities	6,414	3,912
	66,978	51,842

The interest on fixed income securities range from 6.000% to 7.125% per annum (2006:5.000% to 7.125% per annum).

16. Accounts receivables and other assets

	2007 KD 000's	2006 KD 000's
Management fees and commission receivable	4,315	2,827
Interest receivable	736	361
Receivable from sale of available for sale investments	4,421	-
Prepayments	492	387
Others	2,247	489
	12,211	4,064

17. Murabaha receivables

Murabaha receivables arise from a Murabaha transaction with the principal amount and profit thereon being recoverable over a 5 year period from the date of the transaction and at a profit rate of 6.4% per annum. The murabaha receivable was fully received in 2007.

18. Short term financing

Short term financing represents short term advances at an interest rate of 9% per annum (2006: nil) (See note 32). The advance is due within two months of the balance sheet date.

19. Loans to customers

	2007 KD 000's	2006 KD 000's
Commercial loans	10,077	6,271
Margin loans	8,268	7,428
Personal loans	3,956	4,618
	22,301	18,317
Provision for credit losses	(1,913)	(1,878)
	20,388	16,439
The maturity profile of loans to customers is as follows:		
Up to one month	410	2,045
Between one month and six months	2,739	3,621
Between six months and one year	16,873	11,109
Over one year	742	-
Non-performing loans	1,537	1,542
	22,301	18,317

19. Loans to customers (Cont'd)

Provision for credit losses is made in accordance with Central Bank of Kuwait requirements including general provision (See note 3) on the balance of regular facilities for which no specific provisions are made.

The total non-performing loans on which specific provision has been made amounted to KD 1,537 thousand (2006: KD1,542 thousand).

The interest rate on loans to customers ranges from 7.75% to 9.25% per annum (2006: 7.75% to 9.25% per annum) for commercial loans, 7.75% to 8.75% per annum (2006:8.25% to 9.25%) for margin loans and 5.5% to 9.25% per annum (2006: 5.5% to 8.75% per annum) for personal loans.

All loans are denominated in Kuwaiti Dinars or US Dollars. Commercial loans are fully secured by charges over property and investments in the funds and securities held in fiduciary portfolios on behalf of the borrowers.

20. Available for sale investments

	2007 KD 000's	2006 KD 000's
Quoted securities and managed funds	51,716	43,808
Equity participations	25,113	22,896
	76,829	66,704

Equity participations are acquired with the intention of capital appreciation over a medium to long-term time frame. Equity participations amounting to KD 909 thousand (2006: KD 584 thousand) are carried at cost since their fair values could not be measured reliably.

Equity participation include investments amounting to KD 24,204 thousand (2006: KD 22,398 thousand) whose fair values are determined using valuation techniques used by fund managers that are not based on observable market prices or rates.

21. Investment properties

	2007 KD 000's	2006 KD 000's
Carrying value at 1 January	36	36
Additions	-	3,904
Disposals	-	(3,904)
Carrying amount at 31 December	36	36

Investment properties are located outside Kuwait.

22. Property under development

During 2007, the Group acquired land in Saudi Arabia amounting to KD 3,065 thousand (2006: nil). The objective of the Group is to sell the land after further development. The land will be transferred to investment property on completion of development. The commitment for development of land has been disclosed in note 36 to the consolidated financial statements.

23. Short term borrowings

Short term borrowings represent money market borrowings from local and foreign banks. The loans are denominated in Kuwait Dinar and US Dollar and bear an average interest rate ranging from 5 % to 6.5 % per annum (2006 : 4% to 8.75% per annum) and are unsecured.

At 31 December 2007, the Group had KD 33,600 thousand (2006: KD 12,600 thousand) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

24. Bonds

On 5 July 2007, the Parent Company issued unsecured bonds in the principal amount of US Dollars 100,000 thousand with an interest rate of LIBOR plus 1.1 % payable quarterly in arrears. The bonds are listed on the Dubai International Financial Exchange and mature on 5 July 2012.

25. Share capital

The authorised, issued and fully paid up share capital consists of 44,000 thousand shares of 100 fils each (31 December 2006: 44,000 thousand shares of 100 fils each).

26. SHARE PREMIUM

Share premium is not available for distribution.

27. Legal reserve

As required by the Kuwait Commercial Companies Law and the Parent Company's Articles of Association, 10% of profit for the year before KFAS, NLST, Directors' remuneration and Zakat is to be transferred to the legal reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

28. Voluntary reserve

In accordance with the Parent Company's Articles of Association, 10% of profit for the year before KFAS, NLST, Directors' remuneration and Zakat is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer on distributions from the voluntary reserve.

29. Treasury shares

	2007	2006
Number of shares (000's)	29,351	22,621
Percentage of issued shares	6.67%	5.14%
Market value (KD 000's)	10,566	5,881

Reserves of the Parent Company equivalent to the cost of treasury shares have been earmarked as non-distributable.

30. Fair value reserve

	2007 KD 000's	2006 KD 000's
Balance at 1 January	17,534	19,431
Net unrealised gains during the year	12,832	5,209
Impairment in value transferred to consolidated statement of income	195	137
Released on disposal of available for sale investments	(7,904)	(7,243)
Balance at 31 December	22,657	17,534

31. Proposed dividends

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Board of Directors propose to distribute a cash dividend of 25 fils per share and bonus shares of 15 % to the shareholders of record as of the date of the general assembly.

During 2007, cash dividends of 10 fils per share for the year ended 31 December 2006 were approved by the general assembly held on 10 April 2007 and were paid following that approval.

32. Related party transactions

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below

Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	2007 KD 000's	2006 KD 000's
Transactions included in the consolidated statement of income		
a) Interest income	492	292
b) Management fees and commissions	10,207	8,195
c) Compensation of key management personnel		
Salaries and other short term benefits	356	282
Terminal benefits	59	23
	415	305

Balances included in the consolidated balance sheet
Loans to related parties

	2007 KD 000's	2006 KD 000's
Short term financing (See note 18)	5,207	-
Loans to directors and senior management	9,422	4,463
	14,629	4,463

33. Segmental information

The group primarily operates in one area of business activity, investment and accordingly its primary basis for segmental reporting is by geographical segment. Information about the group's geographical segments is summarised as follows:

	Year ended 31 December 2007 Revenue KD 000's	2007 Profit KD 000's	2006 Revenue KD 000's	2006 Profit KD 000's
Kuwait	26,640	17,437	8,376	1,678
Gulf and Middle East	2,005	1,682	587	311
North America	5,987	5,550	2,330	1,990
Europe	2,276	2,269	787	757
Others	108	91	665	614
	37,016	27,029	12,745	5,350

	As at 31 December 2007 Total assets KD 000's	2007 Total liabilities KD 000's	2007 Net assets employed KD 000's	2006 Total assets KD 000's	2006 Total liabilities KD 000's	2006 Net assets employed KD 000's
Kuwait	109,149	31,429	77,720	91,347	18,736	72,611
Gulf and Middle East	21,504	24,966	(3,462)	6,890	17,327	(10,437)
North America	41,341	78	41,263	34,372	741	33,631
Europe	11,214	4	11,210	7,551	4	7,547
Others	4,510	5	4,505	2,323	5	2,318
	187,718	56,482	131,236	142,483	36,813	105,670

34. Fiduciary assets

The Group manages portfolios on behalf of others, mutual funds, and maintains cash balances and securities in fiduciary accounts, which are not reflected in the consolidated balance sheet. Assets under management at 31 December 2007 amounted to KD 1,240,673 thousand (2006: KD 1,182,211 thousand).

35. Employee share option plan

In 2005, the Group established an employee share option plan ("ESOP") to reward the performance of its employees. Under the plan, certain employees are eligible to purchase the Parent Company's shares from its treasury shares and no new shares will be issued. The exercise price is between the book value at the end of each year and average cost of treasury shares. This plan will be in effect for a nine year period for a maximum of 10% of the paid up share capital of the Parent Company at the date of inception of the program.

Pursuant to the plan, the directors approved to make 1,680 thousand shares available for this purpose for the year ended 31 December 2005 which was approved by the relevant regulatory authorities and the shareholders general assembly on 2 April 2006. The fair value of the share at that date was 700 fils and exercise price was 500 fils. The Group recognised a total expense and corresponding liability of KD 336 thousand in the consolidated financial statements for the year ended 31 December 2005. No shares were granted, exercised, expired or forfeited under the ESOP during the year ended 31 December 2007.

36. Commitments and contingent liabilities

	2007 KD 000's	2006 KD 000's
Capital commitments		
For purchase of investments	17,724	20,819
For development of land	717	-
	18,441	20,819

37. Financial instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to the consolidated financial statements.

Financial risk management objectives

The Group's risk management function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Price risk

The Group is exposed to the equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through statement of income and available for sale investments.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio in accordance with the limits set by the Group.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

If equity price had been 10% higher / lower, the effect on the profit for the year and equity for the year ended 31 December would have been as follows.

37. Financial instruments (continued)

A positive number below indicates an increase in profit and other equity where the equity price increases by 10%. For an 10% decrease in the equity price there would be an equal and opposite impact in the profit and other equity and the balances below would be negative.

	Profit for the year		Equity	
	2007	2006	2007	2006
	KD 000's	KD 000's	KD 000's	KD 000's
Investments at fair value through statement of income	1,168	852	-	-
Available for sale investments	474	404	770	290

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	2007	2006
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollars	28,960	7,038	66,472	41,576
Euro	3	16	6,637	4,997
Sterling Pounds	2	2	817	2,582
Bahraini Dinars	-	-	156	725
UAE Dirhams	-	-	651	682
Other	397	6	448	655

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollars.

The following table details the Group's sensitivity to a 10% increase and decrease in the KD against US Dollars. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the KD weakens 10% against the relevant currency. For a 10% strengthening of the KD against the US Dollar, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	+10 % Impact		-10 % Impact	
	2007	2006	2007	2006
	KD 000's	KD 000's	KD 000's	KD 000's
Consolidated statement of income	(980)	(1,061)	980	1,061
Equity	(2,772) (i)	(2,392) (i)	2,772 (i)	2,392 (i)

(i)This is as a result of the changes in fair value of available for sale investments.

37. Financial instruments (Cont'd)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate sensitivity analysis

The Group's exposures to interest rates on assets and liabilities are detailed in the liquidity risk management section of this note.

The following table illustrates the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates of + 1% and - 1 % (2006: + 1% and - 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A positive number below indicates an increase in profit and negative number indicates decrease in profit.

	2007		2006	
	+ 1 % KD 000's	- 1 % KD 000's	+ 1 % KD 000's	- 1 % KD 000's
Profit for the year	(119)	119	(7)	7

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Accounts receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5 % of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Exposure to credit risk

The carrying amount of financial assets which is net of impairment losses, recorded in the consolidated balance sheet represents the Group's maximum credit exposure without taking account of the value of any collateral obtained. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2007	2006
	KD 000's	KD 000's
Bank balances and cash	1,474	1,891
Time deposits	956	1,115
Accounts receivable and other assets	12,211	4,064
Murabaha receivables	-	123
Short term financing	5,207	-
Loans to customers	20,388	16,439
	40,236	23,632

The maximum exposure to credit risk at the reporting date by geographic region was:

	Carrying amount	
	2007	2006
	KD 000's	KD 000's
Kuwait	24,395	22,128
Gulf and Middle East	9,548	136
North America	6,102	1,284
Europe	158	40
Others	33	44
	40,236	23,632

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. None of the financial assets of the Group have been rated by external credit rating agencies. The Group assesses the credit quality of financial assets using internal ratings.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 23 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

37. Financial instruments (Cont'd)

Liquidity and interest risk tables

The table below analyses the Group's non-derivative financial assets and liabilities based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2007	Up to 1 Month	1-3 Months	3-12 Months	Over 1 year	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Assets						
Bank balances and cash	1,474	-	-	-	1,474	-
Time deposits	956	-	-	-	956	4.875
Investments at fair value through statement of income	-	-	63,517	3,461	66,978	6.56
Accounts receivable and other assets	3,789	6,420	1,761	241	12,211	-
Short term financing	-	5,207	-	-	5,207	9
Loans to customers	406	1,494	17,754	734	20,388	8.4
Available for sale investments	-	-	-	76,829	76,829	-
Investment properties	-	-	-	36	36	-
Property under development	-	-	-	3,065	3,065	-
Property and equipment	-	-	-	574	574	-
	6,625	13,121	83,032	84,940	187,718	

At 31 December 2007	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Liabilities						
Due to banks and other financial institutions	432	-	-	-	432	7.5
Accounts payable and other liabilities	-	5,336	-	-	5,336	-
Dividends payable	-	424	-	-	424	-
Short-term borrowings	18,190	-	4,800	-	22,990	5.75
Bonds	-	-	-	27,300	27,300	6
	18,622	5,760	4,800	27,300	56,482	
Total interest rate sensitivity gap	(11,997)	7,361	78,232	57,640	131,236	
Cumulative interest rate sensitivity gap	(11,997)	(4,636)	73,596	131,236	-	

At 31 December 2006	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Assets						
Bank balances and cash	1,891	-	-	-	1,891	-
Time deposits	1,115	-	-	-	1,115	5
Investments at fair value through statement of income	-	-	47,930	3,912	51,842	6
Accounts receivable and other assets	-	4,064	-	-	4,064	-
Murabaha receivables	-	41	82	-	123	6.4
Loans to customers	2,004	1,739	12,684	12	16,439	8.43
Available for sale investments	-	-	-	66,704	66,704	-
Investment properties	-	-	-	36	36	-
Property and equipment	-	-	-	269	269	-
	5,010	5,844	60,696	70,933	142,483	

At 31 December 2006	Up to 1 Month	1-3 Months	3-12 Months	Over 1 Year	Total	Weighted average effective interest rate
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Liabilities						
Due to banks and other financial institutions	12	-	-	-	12	7.5
Accounts payable and other liabilities		3,345	-	-	3,345	-
Dividends payable	-	562	-	-	562	-
Short-term borrowings	27,144	-	5,750	-	32,894	6.38
	27,156	3,907	5,750	-	36,813	
Total interest rate sensitivity gap	(22,146)	1,937	54,946	70,933	105,670	
Cumulative interest rate sensitivity gap	(22,146)	(20,209)	34,737	105,670	-	

Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on the active liquid markets is determined with reference to active market prices.

The fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

As at the consolidated balance sheet date, the fair value of all of the Group's financial assets and financial liabilities approximate their carrying value in the consolidated balance sheet.

37. Financial instruments (Cont'd)

Financial assets

	2007 KD 000's Fair value	2007 KD 000's At amortised cost	2006 KD 000's Fair value	2006 KD 000's At amortised cost
Bank balances and cash	1,474	-	1,891	-
Time deposits	956	-	1,115	-
Investments at fair value through statement of income	66,978	-	51,842	-
Accounts receivable and other assets	-	12,211	-	4,064
Murabaha receivables	-	-	-	123
Short term financing	-	5,207	-	-
Loans to customers	-	20,388	-	16,439
Available for sale investments	76,829	-	66,704	-
	146,237	37,806	121,552	20,626
Financial liabilities				
Due to banks and other financial institutions	-	432	-	12
Accounts payable and other liabilities	-	5,336	-	3,345
Short-term borrowings	-	22,990	-	32,894
Bonds	-	27,300	-	-
	-	56,058	-	36,251

38. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Group consists of equity attributable to equity holders of the Parent Company, comprising issued capital, share premium, reserves and retained earnings as disclosed in notes 25, 26, 27, 28, 29 and 30 respectively. Debt consists of the due to banks and other financial institutions disclosed in Note 14, short term borrowings disclosed in note 23 and bonds disclosed in note 24.

Gearing ratio

The gearing ratio at year end was as follows:

	2007 KD 000's	2006 KD 000's
Debt	50,722	32,906
Less: Cash and cash equivalents	1,998	2,994
Net debt	48,724	29,912
Equity	131,170	105,616
Net debt to equity ratio	37.15%	28.32%

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