8 YEARS OF OUTSTANDING RESULTS | ANNUAL REPORT 2007

بنك الخليج
GULF BANK
ALWAYS MORE

H.H. Sheikh
Sabah Al Ahmed Al Jaber Al Sabah
(The Amir of the State of Kuwait)

H.H. Sheikh
Nawaf Al Ahmed Al Jaber Al Sabah
(The Crown Prince)

H.H. Sheikh
Nasser Al Mohammed Al Ahmed Al Sabah
(The Prime Minister)

RESPECTED PRACTICES AND GOOD CUSTOMER RELATIONSHIPS - A STRENGTH WE PRIDE OURSELVES IN

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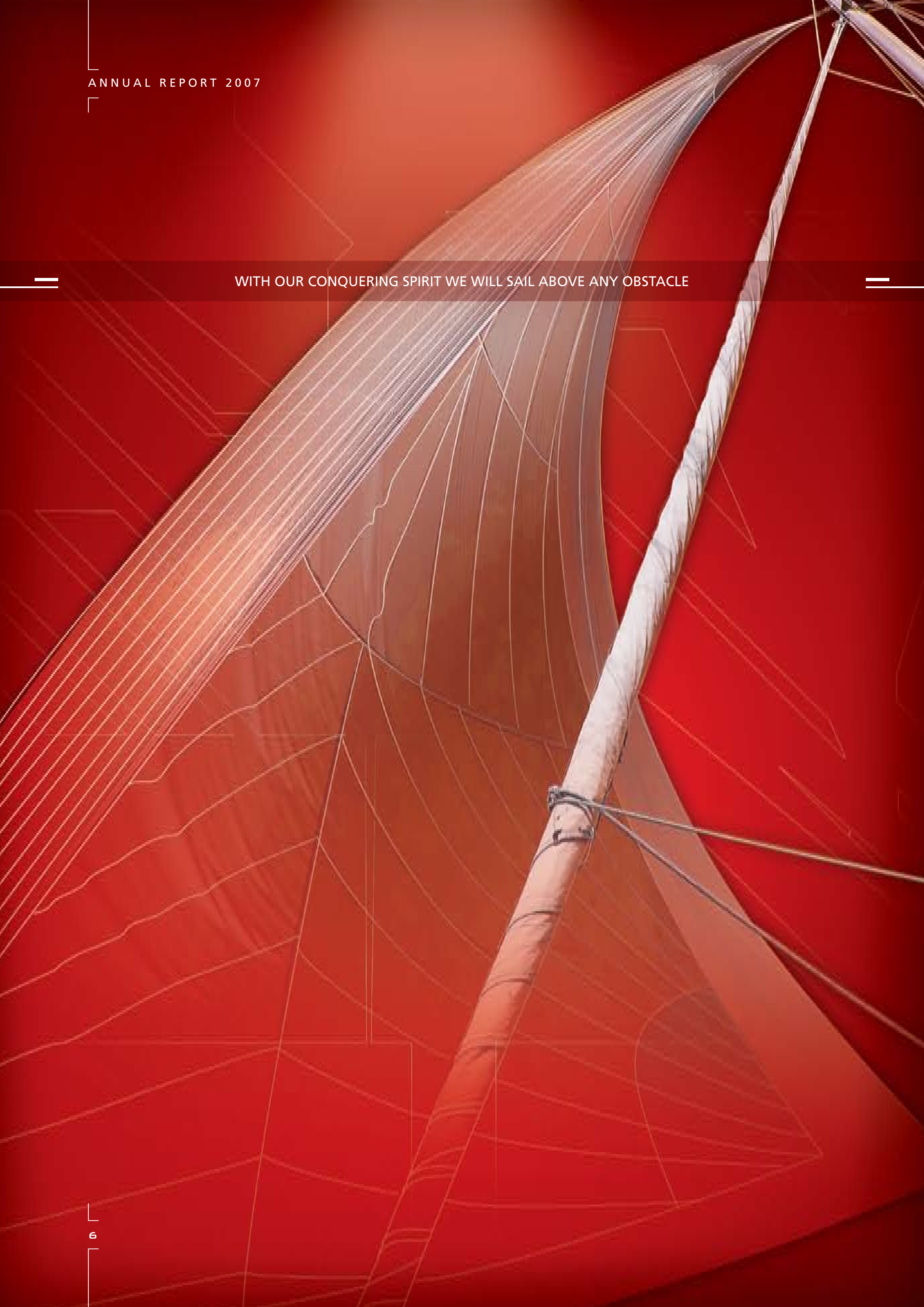
INSPIRED BY THOSE AT THE TOP WHERE EACH AND EVERY INDIVIDUAL FORCE GATHERS AS ONE COMBINED STRENGTH

Board of Directors

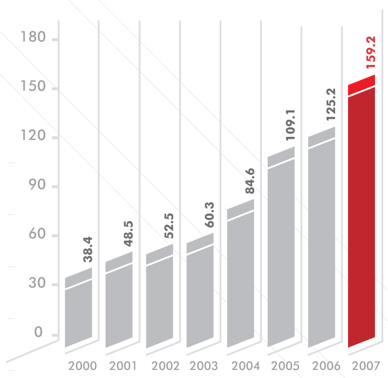
Bassam Yusuf Ahmed Alghanim	**Chairman & Managing Director**
Salah Khalid Fulaij Al-Ali Al-Fulaij	**Deputy Chairman**
Hussain Ahmed Hussain Qabazard	Board Member
Khaled Soud Abdulaziz Al-Hassan	Board Member
Adel Mohammed Rida Yousef Behbehani	Board Member
Abdul Aziz Abdul Rahman Abdul Aziz Al-Shaya'a	Board Member
Abdulkareem Abdulla Abdulkareem Al-Saeed	Board Member
Mahdi Mahmoud Hajji Haider	Board Member
Nasser Yousuf Naser Buresli	Board Member

WITH OUR CONQUERING SPIRIT WE WILL SAIL ABOVE ANY OBSTACLE

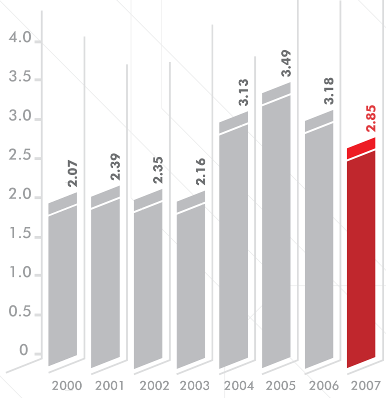


Financial Highlights

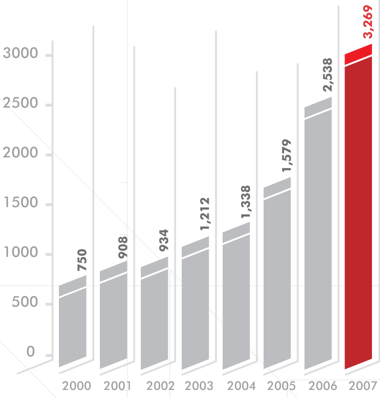
OPERATING PROFIT (BEFORE PROVISIONS) (KD MILLION)



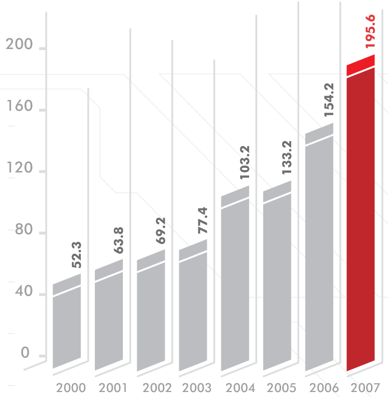
RETURN ON ASSETS (%)



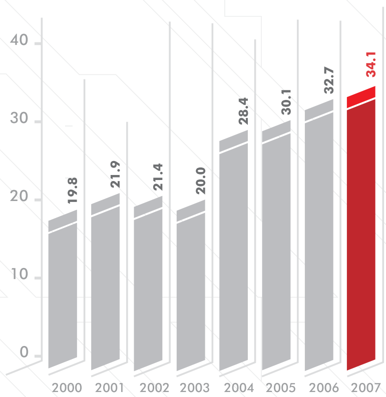
CUSTOMER LOANS (KD MILLION)



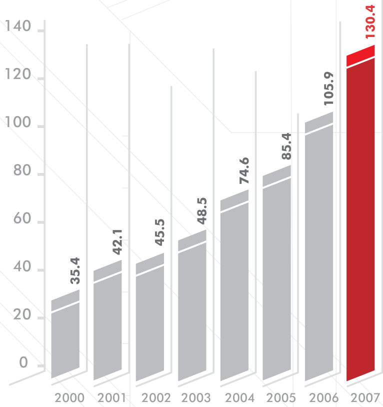
OPERATING INCOME (KD MILLION)



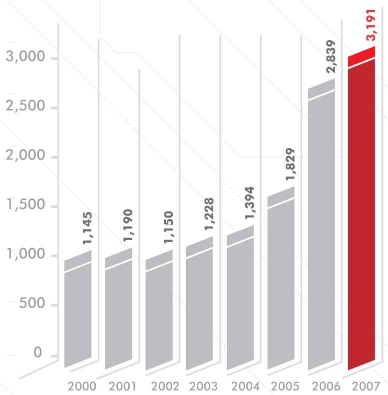
RETURN ON EQUITY (%)



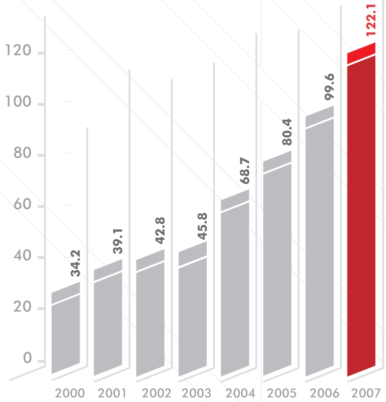
NET PROFIT (KD MILLION)



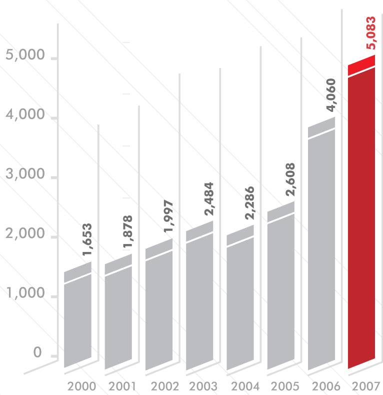
CUSTOMER DEPOSITS (KD MILLION)



EARNINGS PER SHARE (FILS)



TOTAL ASSETS (KD MILLION)



THE MEASURE OF EVERY JOURNEY IS DEFINED BY THE ONE DEVOTED TO STEER AHEAD

"FOCUSING ON OUR CORE STRENGTHS HAS ENABLED US TO BECOME A MORE DISCIPLINED OPERATION OFFERING WORLD CLASS BANKING SERVICES TO OUR CUSTOMERS WHILST MAXIMISING THE RETURNS FOR OUR SHAREHOLDERS"

Chairman's Message

Dear Shareholders,

I am pleased to present to you Gulf Bank's annual report for 2007, marking another record year of excellent achievement. I am delighted to confirm that the course we charted a few years ago is delivering continued success and profitability. We remain as one of the leading banks in Kuwait and continue to increase our market share in the Retail, Corporate, Treasury and International Groups. Business conditions were very favourable in 2007; a volatile yet expanding global economy was offset by strong local growth. This was due in part to high liquidity rates as a result of record oil revenues. Gulf Bank took full advantage of the more buoyant market conditions and increased trade activity to realise revenue growth.

We achieved a record total annual net profit of KD130.4 million in 2007 – representing a significant increase of 23% on the previous year's results. The total operating income was up by 27% to over KD195.6 million, signifying another milestone in our measure of success. This was due to strong growth across all business divisions.

Gulf Bank again delivered record earnings per share in 2007, rising nearly 23% to 122.1 fils, while total assets grew by more than 25% to surpass KD5 billion for the first time, thereby consolidating our position as one of the most profitable banks in the region.

The main attributes of our corporate culture have been forged through teamwork and a passion for excellence to deliver the best possible service to our clients. This culture incorporates an innate flexibility and responsiveness to the evolving needs of our clients. Our dedicated team harbours the single minded commitment to focusing on our core strength in delivering world class banking services to the Kuwaiti market. These attributes have proved repeatedly to be the cornerstones of our success.

Gulf Bank has instigated a series of business platforms and policy reforms designed to increase our competitive qualities and ensure greater business efficiencies across our personal and corporate banking divisions. The record-breaking success we enjoyed in 2007 confirmed the validity of our corporate decisions and has given us the confidence to pursue our goals on the basis of our defined business strategy.

We have maintained our strategy of balanced growth based on a highly targeted approach to a clearly segmented domestic market. Our sustained efforts have again yielded excellent results and I am delighted to announce that the Board of Directors has recommended a cash dividend of 65 fils and 15% bonus share issue, a return of 19% for 2007.

Gulf Bank's goal is to become Kuwait's preferred local bank and in 2007 we made significant progress in several key areas of our customer-centric retail strategy. We have built a stable and growing customer base that is highly appreciative of our efforts to expand the number of our country-wide branches to facilitate their daily banking needs.

Each of our 41 branches delivers on our customer service commitment to provide innovative products and services by highly trained and motivated staff. Most of these branches offer our specially designed 24/7 self service areas which deliver a more flexible banking service to a discerning clientele.

We have continued the tradition of offering services to our customers when they want them. That is why we are dedicated to our split-shift system of branch opening hours, with a morning and evening shift allowing our customers to bank at their convenience. Gulf Bank offers a 24 hour tele-banking system whereby a customer service representative is available 24 hours a day.

The Bank recently launched a new industry-leading homepage offering customers fast and convenient access to online banking services. The new website follows detailed research into the needs of our customers and other site users.

Systems enhancements to improve information availability were introduced over the past two years taking into account the international requirements of our clients. Technology investment for the benefit of our customers has resulted in Gulf Bank being voted the "Best Consumer Internet Bank in Kuwait" by the internationally recognised Global Finance magazine.

Gulf Bank has managed to achieve continued market share growth in an intensely competitive retail banking environment. The Retail Banking division continued to be successful by gaining more salary consumers, due to its highly competitive offering of value-added services delivered by a qualified team that offers a professional knowledge base as well as excellent relationship skills.

As the Bank continues to expand its client base, we have intensified our efforts to target the increasingly important youth market. Gulf Bank offers a diverse range of rewards and promotions through 'red', the appealing university/college student programme. The youth segment in Kuwait is very important to Gulf Bank from a business perspective as they are our future customers. We recognise the contribution that a good education makes to our combined future. As a result, we have continued to invest in our Corporate Social Responsibility programme focusing on community and education initiatives.

These initiatives demonstrate that Gulf Bank is committed to meeting and exceeding the expectations of our wide-ranging customer base and to setting new standards of service and performance in our industry. As a testimony to our achievements in 2007, Gulf Bank was awarded "Best Bank in Kuwait" by the internationally renowned publication Global Finance magazine.

Gulf Bank's Corporate Banking division has benefited from renewed corporate focus and strategic investment to evolve into an acclaimed "businessman's bank". The focus has been to provide an informed and flexible approach to corporate clients which have been underpinned by an experienced and dedicated relationship management team.

Offering more scalable and multi-faceted solutions to business clients' increasingly complex banking needs has resulted in outstanding performances being achieved in 2007 in this sector. The Corporate Banking division is able to provide a comprehensive range of trade finance deals, currency and interest rate risk management as well as cash management tools. Another unique provision by our Contracting Finance division includes tailored solutions to all types of contractors undertaking both public and private sector projects.

Increasingly, our Multi-national Corporate division delivers a range of specific corporate finance products that cater to the international requirements of multi-national clients operating in Kuwait and the GCC. Our highly experienced team has multi-sector expertise, including contracting, trading, power, water, telecommunications, oil & gas, aviation, shipping, airports and ports, petrochemicals, real estate and international trading. Gulf Bank has been instrumental in financing many of the major projects in Kuwait providing a real impetus for economic growth and development.

The structure of our Financial Markets business has seen the focused development of two defined practices, the Share Finance Division and the Real Estate Finance Division, provide clients with specialised advice and operational support. Given the lucrative real estate business opportunities, coupled with high market liquidity, this has enabled Gulf Bank to achieve leadership positioning in this sector.

Our Financial Institutions division has established strong relationships with top international banks and financial institutions world-wide to facilitate our corporate clients' international requirements. A range of bespoke products and services provide a comprehensive offering in the areas of trade finance, corporate banking, clearing facilities, foreign exchange and inter-bank trading.

We have worked more closely with major organisations involved in the oil and petrochemical industry in Kuwait, servicing a wide range of their financial requirements including advisory services. We have developed specialised expertise in providing banking services to foreign companies operating in the oil and related industry sectors in Kuwait.

Gulf Bank's International Banking Group has been able to expand its international earnings drastically and help contribute not only to the development of the Kuwait economy but the GCC economy as a whole. Support for GCC economic growth has been realised through major project finance deals such as contractor financing of a $5 billion loan for Dubai World and $5.4 billion loan for SABIC Innovative Plastics.

Additional robust performances were achieved through foreign exchange and interest derivatives, standard products (money market services) and structured products (hedging loans).

Gulf Bank's strong performance was due in part to the outstanding efforts of the Treasury group, which continued to demonstrate market leadership throughout 2007. Strong results were achieved through foreign exchange transactions which saw a substantial increase in both volumes and profits. In addition, the Bank led the market in introducing sophisticated Treasury products to its clients which resulted in a significant growth in revenues. The successful year was capped by a prestigious award announced by 'Global Finance', a leading international financial publication which announced Gulf Bank as the winner of the 'Best Foreign Exchange Bank in Kuwait'.

Gulf Bank focuses on professionalism, flexibility and expertise and we have worked hard to permeate this throughout all related divisions. This has been instrumental in achieving and retaining significant international standards ratings, such as the 'Aa3' long-term foreign currency deposit rating from Moody's Investors Service.

Strong ratings have been awarded by Fitch Ratings, Capital Intelligence ('A') and Standard & Poor's ('A-'), reflecting our commitment to delivering a higher calibre of service in our regional banking sector. All of this has helped us deliver excellent shareholder returns and enabled us to achieve a strong competitive advantage in our market.

I am also very proud of our sustained localisation efforts and extensive human resource initiatives that have enabled us to remain one of the leading employment organisations in Kuwait.

For the 3rd consecutive year we have been awarded the Localisation Award for having the highest ratio of Kuwaiti nationals working in a private sector organisation, a resounding figure of 59%. The prestigious award from the GCC Council of Ministers for Social Affairs and Labour also recognised the significant investment we have made in training and career development opportunities for young Kuwaiti professionals.

We expect economic conditions to be favorable to support our ambitious goals for 2008. This year's plan includes continued investment in new products and distribution channels. In addition, we will focus on building the skills and talents of our staff to support our desire to provide the highest quality service to our clients.

As we continue to invest significantly to develop and enhance our infrastructure, business platforms and internal processes, we are able to improve delivery of service and satisfaction to existing and new clients. The current phase of our management agenda will help us to further raise the bar of banking standards in our market and contribute towards Kuwait's economic growth, thus delivering outstanding returns to our shareholders.

On behalf of the Board of Directors, I would like to pay tribute to His Highness, The Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah for his wise guidance of the State of Kuwait since his accession in January 2006, the Crown Prince of the State of Kuwait, H.H. Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and the Prime Minister of the State of Kuwait, H.H Sheikh Nasser Al Mohammed Al Ahmed Al Sabah.

We would also like to express our thanks to the Central Bank of Kuwait and other official authorities for their continued support of the Bank. On behalf of the Board of Directors, I would also like to take this opportunity to thank our loyal customers, our outstanding management team and dedicated staff who have made such a contribution to Gulf Bank's performance and our shareholders.

I look forward to continued success in the years ahead.

Bassam Yusuf Alghanim

Chairman and Managing Director

KNOWLEDGE IS A BELIEF THAT THERE ARE NO BOUNDARIES FOR FINANCIAL OPPORTUNITIES

Financial Review

Summary of Financial Performance

(KD Millions)	**2007**	2006
Net Interest Income	**106.6**	108.5
Other Operating Income	**89.0**	45.6
Operating Income	**195.6**	154.2
Operating Expenses	**(36.4)**	(29.0)
Operating Profit before Provisions	**159.2**	125.2
Provisions	**(15.5)**	(15.4)
Loans written down	**(8.4)**	-
Operating Profit	**135.3**	109.8
Directors' emoluments	**(0.1)**	(0.1)
KFAS/ National Labour Support Tax / Zakat	**(4.8)**	(3.8)
Net Profit	**130.4**	105.9

Gulf Bank produced record set of results in 2007 marking the successful completion of its Transformation (2000-2003) and Actualisation (2004-2007) strategies after the change in ownership in late 1999. The bank met all its key 2007 business plan objectives with the significant growth in operating profit, net profit and better operational efficiencies.

The record net profit of KD130.4 million (USD477.8 million) was KD24.6 million or 23% higher than 2006. Operating profit before provisions grew by KD34.0 million (27%) to KD159.2 million, reflecting strong growth in all business areas.

Net interest income decreased by KD2.0 million (2%) mainly due to KD11.3 million loss on account of effective interest rate adjustment for retail loans. Excluding that, net interest income increased by KD9.3 million (9%). Loans and advances increased by KD720.4 million (28%) in 2007.

Other operating income increased by KD43.4 million (95%), mainly due to higher investment disposal and foreign exchange earnings partly offset by reduced fees & commissions.

Operating expenses increased by KD7.4 million (25%) due to continuing investment in branches, people and systems. Staff costs were up KD4.2 million (24%) and non-staff costs were up KD3.2 million (29%). The Bank continues to maintain operational efficiencies resulting in industry beating cost: income ratio of 18.6%. The Bank's revenue growth consistently outpaced the growth in operating expenses.

Total provision charge was almost same at KD15.5 million. The general provisions at KD6.8 million were lower by KD5.3 million mainly due to revised CBK provision norms.

The Bank continues to deliver high returns compared to International Banking Standards. The Return on assets was 2.85% and Return on Equity at 34.1%. Earnings per share grew by 23%, from 99.6 fils to 122.1 fils.

Net interest income

	2007	2006
Net interest income *(KDm)*	**106.6**	108.5
Average interest-earning assets *(KDm)*	**4,459.7**	3,247.2
Net interest spread *(per cent)*	**1.9%**	2.9%
Net interest margin *(per cent)*	**2.4%**	3.3%
Average KD Discount Rate *(per cent)*	**6.25%**	6.12%

Net interest income decreased by KD2.0 million (2%) in 2007, due to the negative impact of effective interest rate adjustment of KD11.3 million.

There was a strong growth in both Retail and Corporate Banking. Average retail lending grew by 13% and average retail deposits grew by 15% as the Bank further enhanced its product range and opened more new branches. Average corporate loan balances increased by 47% and deposit balances increased by 52% as full year benefits of significant balance sheet increase of 2006 started to flow in.

Average interest-earning assets grew substantially in 2007: up KD1.2 billion (37%) to KD4.5 billion. This boosted the growth in interest income by 34%.

Other operating income

(KD millions)	2007	2006
Net fees and commissions	**23.4**	26.1
Foreign exchange and derivatives income	**15.0**	6.2
Dividend income	**0.8**	0.5
Other income	**1.1**	0.4
Income from disposal of investment securities	**48.7**	12.6
Total other operating income	**89.0**	45.6

Other operating income was higher by KD43.4 million mainly due to higher investment disposal income and foreign exchange earnings.

Significant growth in foreign exchange & derivatives income (KD8.8 million, 142%) also contributed to the growth in non-interest income.

Net fees and commissions decreased by KD2.7 million (10%), due to refund of loan protection insurance charges and discontinuation of some loan related fees as per regulatory requirements.

Dividend and other income showed a moderate growth.

Operating expenses

(KD millions)	**2007**	2006
Staff costs	**22.1**	17.9
Occupancy costs	**1.8**	1.4
Depreciation	**2.2**	1.7
Other expenses	**10.3**	8.0
Total operating expenses	**36.4**	29.0
Cost: income ratio (per cent)	**18.6%**	18.8%

Operating expenses increased by KD7.4 million (25%) in 2007. Staff costs grew by KD4.2 million (24%), mainly due to higher performance-related incentive payments and headcount growth.

The bank continued setting new standards in customer service by introducing state-of-art technology and superior physical infrastructure. Occupancy costs were 31% higher. Four new branches were opened in 2007. The Bank also renovated eight branches to its state-of-art uniform branch design. The bank also installed 37 cash and cheque deposit machines during the year. Consequently, depreciation costs were KD0.5 million (29%) higher.

Other expenses were KD2.2m higher mainly due to substantial marketing and promotional activity throughout 2007 to support retail customer acquisition programmes / campaigns and brand building activities.

The cost: income ratio continued to remain healthy at 18.6%. Gulf Bank maintains one of the best operating efficiency ratios of any bank in the world, despite significant and continuous business-led cost growth. This demonstrates the Bank's ability to grow its business and increase its market share so that revenue growth exceeds the costs of investing in branches, people, new products and systems.

Provisions

(KD millions)	**2007**	2006
Specific provisions	**8.7**	3.3
General provisions	**6.8**	12.2
Total provisions	**15.5**	15.4
Non-performing to total loans (%)	**1.7%**	1.6%
Non-performing to total loans (%) - *Post - Liberation*	**1.3%**	1.1%
Specific provisions cover (%)	**57.9%**	55.2%
Total provisions cover (%)	**191.5%**	214.5%

The provisions charge at KD15.5 million maintained the 2006 level. While the specific provisions were KD5.4 million (167%) higher at KD8.7 million, the general provisions were KD5.3m lower due to revised CBK general provision norms. Specific provisions growth was mainly due to growth in personal lending in recent years.

Asset quality remains good, reflecting the Bank's prudent lending strategies and its strict and comprehensive credit policies and procedures. Non-performing loans ('NPLs') increased by KD13.4 million (31%) in 2007, to KD56.3 million mainly due to the increase in NPLs in the personal loan portfolio. Specific provisions cover have increased from 55.2% of NPLs in 2006 to 57.9% of NPLs at 31 December 2007; and total provisions cover (including general provisions), decreased from 214.5% to 191.5% mainly due to lower general provision requirement on incremental loan balances in 2007 as per revised regulatory requirement.

Balance Sheet Analysis

Selected balance sheet data *(KD millions)*	**31-Dec 2007**	31-Dec 2006
Cash & short term funds: balances with CBK	**57.0**	435.0
Loans and advances to banks	**38.0**	48.1
Loans and advances to customers	**3,268.8**	2,538.3
Deposits with banks and OFIs	**313.7**	129.9
Investment securities	**242.9**	159.4
Total assets	**5,082.9**	4,060.0
Due to banks	**301.6**	229.0
Floating rate notes	**54.6**	57.8
Subordinated loans	**81.9**	86.7
Deposits from Other Financial Institutions	**874.5**	372.5
Customer deposits	**3,191.3**	2,838.8
Shareholders' funds	**420.8**	343.5
Key ratios (per cent)		
Return on average assets	**2.85%**	3.18%
Return on average equity	**34.1%**	32.7%

Total assets increased by KD1.0 billion or 25% to KD5.1 billion (USD18.6 billion) at 31 December 2007. 64% of the balance sheet was deployed in customer loans and advances at 31 December 2007, compared with approximately 63% at 31 December 2006.

Balances with CBK decreased by KD378.0 million.

Loans and advances to banks declined by KD10.1 million (21%) to KD38.0 million.

Deposits with banks and other financial institutions ('OFIs') increased by KD183.9 million.

Investment securities increased by KD83.5 million (52%) due to new investment opportunities in funds. There were no debt securities at year-end 2007. The geographical mix of the investment securities portfolio has become more broad-based.

Due to banks (mostly time deposits) increased by KD72.6 million (32%), from KD229.0 million to KD301.7 million. Subordinated loans decreased by KD4.8 million. Floating Rate Notes (FRNs), comprise of the 5-year notes issued in October 2003 for USD200 million. The year-on-year decline in the KD-equivalent values of subordinated debt and FRNs was due to change in the USD / KD parity in 2007.

Shareholders' funds increased by KD77.3 million (23%) from KD343.5 million to KD420.8 million. The increase in the shareholders' funds was driven primarily by growth in retained earnings (up KD30.1 million), and statutory reserves (up KD13.5 million).

The return on average assets decreased by 32 basis points (10%), from 3.18% in 2006 to 2.85% in 2007. The return on average equity increased by 140 basis points (4%), from 32.7% to 34.1%. These ratios are very high compared to international standards.

Bank Ratings

Long-term foreign currency ratings	**2007**	2006
Fitch Ratings	**A**	A
Moody's Investors Service	**Aa3**	Aa3
Standard & Poor's	**A-**	A-
Capital Intelligence	**A**	A

Gulf Bank maintains its position as the second highest rated bank in Kuwait and one of the highest rated banks in the Middle East. The strong ratings reflect the Bank's financial strength, prudent risk management and good asset quality, strong and consistent profit growth and well focused and effective business strategy. Gulf Bank views its strong ratings as a source of competitive advantage and the Bank continues to increase its market share and build on its position as Kuwait's second largest commercial bank, despite the increasing competition in the market.

Capital Management and Allocation

Capital Measurement and Allocation

Gulf Bank K.S.C. is a public shareholding company incorporated in Kuwait and registered as a bank with the Central Bank of Kuwait ('CBK'). The Bank is a domestic Kuwaiti commercial bank (with no overseas offices). It has no subsidiaries or significant minority equity investments.

Gulf Bank is required to comply with the regulatory capital adequacy guidelines promulgated by CBK. These guidelines are based on the standards established by the Basel Committee on Banking Supervision ('the Basel Committee') of the Bank for International Settlements ('BIS'). The BIS/CBK guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure. Capital is also set aside for operational risk and for the market risk associated with trading activities. In accordance with the CBK guidelines, the Kuwaiti banks (including Gulf Bank) must maintain a minimum capital adequacy ratio of 12% (compared with the internationally agreed minimum of 8%).

Gulf Bank's capital is divided into two tiers: Tier 1, comprising paid-up share capital and reserves (less treasury shares); and Tier 2, comprising subordinated debt and a proportion of property revaluation reserves, fair value reserves and general provisions. The Bank does not have any Tier 3 capital (which is used solely to cover market risk) since the level of Gulf Bank's market risk exposure is minimal and is expected to remain so for the foreseeable future.

Risk-weighted assets comprise credit risk-weighted assets and market risk-weighted assets. Credit risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset (on and off-balance-sheet) and counterparty, taking account of any eligible collateral or guarantees. Market risk-weighted assets are determined by taking into account market-related risks such as foreign exchange, interest rate and equity position risks, and counterparty risk. Capital is also required to cover operational risk-weighted exposure.

Capital Adequacy Framework (Basel II)

The Basel II framework incorporates three equally important and mutually reinforcing pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review process) and Pillar 3 (market discipline).

Pillar 1 provides three approaches (of increasing sophistication) to the calculation of the regulatory capital requirement for credit risk: the standardised approach and two more sophisticated internal ratings-based ('IRB') approaches. The standardised approach uses external credit ratings to determine the risk weightings to be applied to rated counterparties and groups non-rated counterparties into broad categories and applies standardised risk weightings to these categories. The IRB approaches (foundation and advanced) allow banks to calculate the regulatory capital requirement for credit risk based on their own internal assessment.

Pillar 2 recognises the necessity of exercising effective supervisory review to ensure that banks have comprehensive risk management and control structures in place and are exercising sound judgement in evaluating the risk profiles of their activities and are setting aside adequate capital to cover these risks. Supervisors are required to intervene at an early stage to prevent capital falling below the minimum levels required to support the risk characteristics of the bank.

Pillar 3 leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting.

CBK has implemented all three pillars of the Basel II framework with effect from 31 December 2005.

Capital Structure

The table below details the regulatory capital resources for Gulf Bank as at 31 December 2007 and 31 December 2006.

Capital Structure

Composition of Capital	*(KD Million)*		
	31 Dec 07	**31 Dec 06**	**Variance**
Tier 1 Capital			
Paid-up share capital	**125.4**	109.0	16.4
Reserves	**165.8**	142.0	23.8
Retained earnings	**125.6**	94.9	30.7
Less: Treasury Shares	**(19.9)**	(33.1)	13.2
Total Qualifying Tier 1 Capital	**396.8**	**312.8**	**84.0**
Tier 2 Capital			
Property Revaluation Reserve (45%)	**6.8**	5.3	1.5
Fair Valuation Reserve (45%)	**4.0**	8.5	(4.5)
General Provisions (1.25% of Credit RWAs)	**32.8**	25.2	7.6
Subordinated Debt	**81.9**	86.7	(4.8)
Total Qualifying Tier 2 Capital	**125.5**	**125.7**	**(0.2)**
Total Eligible Regulatory Capital	**522.3**	**438.5**	**83.8**

Qualifying Tier 1 capital increased by KD84 million (27%) to KD396.8 million, reflecting the growth in retained earnings and reserves.

Qualifying Tier 2 capital decreased marginally to KD125.5 million, due to the revaluation of subordinated debt at current exchange rate and decrease in fair value reserves offset by the increase in eligible provisions and property revaluation reserves.

Capital Management

Gulf Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance-sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is used to ensure that the Bank's internal capital targets are consistent with the risk profile of the Bank.

The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier 1 and Tier 2 capital. It also recognises the impact on shareholder returns of the level of capital employed and therefore seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity made possible by greater leverage. In the current environment, the Bank aims to maintain a minimum total capital adequacy ratio of around 18% and a minimum Tier 1 ratio of around 14%.

Capital Management *(continued)*

The following table below details the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for Gulf Bank as at 31 December 2007 and 31 December 2006.

	(KD Million)	
Credit Risk Exposures	**31 Dec 07**	**31 Dec 06**
Credit risk weighted assets	**2,621.7**	2,013.0
Less: Excess general provisions	**(42.5)**	(43.3)
Net Credit Risk Weighted Exposure	**2,579.2**	**1,969.7**
Market risk weighted assets	**5.0**	23.6
Operational risk weighted exposures	**166.7**	140.0
Total Risk Weighted Exposures	**2,750.9**	**2,133.3**
Capital Requirements		
Credit Risk		
Cash items	**-**	-
Claims on sovereigns	**0.7**	0.4
Claims on public sector entities (PSEs)	**8.5**	1.1
Claims on banks	**34.3**	16.5
Claims on corporates	**154.7**	123.0
Regulatory retail exposures	**53.8**	54.0
Past due exposures	**2.9**	2.3
Other assets	**59.7**	44.3
Credit Risk Capital Requirement	**314.6**	241.6
Less: Excess General provision (12%)	**(5.1)**	(5.2)
Net Credit Risk Capital Requirement	**309.5**	**236.4**
Market Risk		
Interest rate position risk	**0.4**	1.4
Foreign exchange risk	**0.2**	1.4
Capital requirement for market risk	**0.6**	2.8
Capital requirement for operational risk	**20.0**	16.8
TOTAL CAPITAL REQUIREMENT	**330.1**	**256.0**
Capital adequacy ratios (per cent)		
Tier 1 ratio	**14.4%**	14.7%
Total capital adequacy ratio	**19.0%**	20.6%

Total risk-weighted exposure at 31 December 2007 was KD2,751 million, requiring regulatory capital (at 12%) of KD330 million. The capital requirement was substantially lower than Gulf Bank's available regulatory capital (KD522.3 million) and the capital adequacy ratios were consequently well above the CBK minimum total ratio of 12%. The 31 December 2007 total capital adequacy ratio of 19.0% and the Tier 1 ratio of 14.4% leave the Bank strongly capitalised to support the continued expansion of its business activities in 2008.

Risk Management

Risk Management Control Overview

All banking activities involve the analysis, evaluation, acceptance and management of some degree of risk. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risks.

Gulf Bank has a strong and prudent risk management culture. The identification and management of risk is a high priority and is integral to the execution of the Bank's activities. Gulf Bank's risk management policies are designed to identify and analyse risks, set appropriate risk limits and controls and monitor the risks and limits. The risk management policies and procedures are constantly reviewed and, where necessary, modified and enhanced to reflect changes in markets and products. Effective risk management relies on individual responsibility and collective oversight. Responsibility for risk resides at all levels of management, from the Board of Directors downwards, and each business manager is accountable for managing the risks in their own area, assisted where appropriate by risk specialists.

The two principal bodies responsible for managing and overseeing risk within Gulf Bank are the Risk Management function and the Asset and Liability Management Committee ('ALCO'). The internal audit function and the Audit Committee also play a key role, particularly in terms of monitoring the adherence to policies and procedures and reviewing the effectiveness of the Bank's internal control systems.

In accordance with CBK requirements, the Risk Management function reports direct to the Chief General Manager and Chief Executive Officer. The Risk Management team includes dedicated specialists for credit risk, market risk, liquidity risk and operational risk. They provide specialist guidance to the business areas and ensure that business activities fall within the Bank's agreed risk tolerances and strategies.

ALCO is responsible for managing the asset/liability structure and funding strategy of Gulf Bank, based on a thorough review of domestic and international financial market conditions, interest rate and foreign exchange forecasts and the Bank's internal risk guidelines. ALCO meet monthly to monitor and review all aspects of the Bank's fundamental liquidity profile and key financial strategic exposures; adherence to internal and statutory ratio requirements; capital management (including internal capital allocation); asset and liability structure and balance sheet risk management; risk concentrations; transfer pricing and internal funds transfer; and the control of trading risk limits.

Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. Note 26 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it.

Market Risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios. Gulf Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The treasury group monitors and control the Bank's market risk exposure using detailed and comprehensive daily management reports. Individual dealer position and trading limits are set for each portfolio, product and risk type to ensure that the Bank's market risk is managed within the overall CBK regulatory guidelines and the market risk profile set by ALCO. Interest rate, currency and liquidity mismatches are monitored

Market Risk *(continued)*

constantly by the treasury group and regularly reviewed by ALCO. The degrees of mismatch permitted by ALCO are minimal.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. All customer transactions are undertaken on a strictly back-to-back basis. The treasury group also undertakes a limited amount of proprietary foreign exchange trading, mainly in the G7 currencies but also in the regional and other minor currencies. The risks are limited since the open foreign exchange positions are very small and in strict adherence with the open currency position limits set by CBK. Foreign exchange risk is controlled through strict intraday and overnight daily limits by currency for each dealer. Maximum deal limits for individual transactions in each currency are also set for each dealer. Foreign exchange transactions and interest rate derivatives are undertaken to hedge the Bank's underlying market risk exposures. The Bank does not trade fixed income or equities.

Interest rate trading is restricted to meeting the funding requirements of the Bank's domestic and international foreign currency assets and investing any surpluses. As a matter of general policy, these positions do not contain any material element of interest rate risk. A modest amount of proprietary money market trading and foreign and local currency interbank activity is undertaken. The mismatch risks are minimal and are again governed by strict CBK limits.

The Bank utilises a limited range of derivative instruments such as futures, swaps and options for the purpose of hedging its own positions and for hedging customer transactions. The Bank operates within the very strict CBK guidelines when entering into derivative transactions and foreign exchange options are only undertaken on a back-to-back basis. The treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the CBK statutory liquidity requirements and to manage surplus domestic currency liquidity.

The Kuwaiti Dinar is the Bank's functional currency. Almost all of the Bank's assets and liabilities are denominated in either KD or USD and are match funded in the same currency. As a result, there is limited structural cross currency foreign currency exposure, and currency risk management is confined to a small volume of proprietary trading positions. Most of the Bank's assets and liabilities are floating rate and reprice immediately, so reducing interest rate risk.

Liquidity Risk

Liquidity risk arises in the general funding of a bank's activities. Note 26 (D) to the financial statements explains liquidity risk in detail and also outlines Bank's policy and framework to manage it.

Operational Risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure and external events. This risk includes operational risk events such as IT problems, shortcomings in the organisational structure, lapses in internal controls, human error and fraud and external threats. It is inherent in every business organisation and covers a wide spectrum of issues. Gulf Bank manages operational risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. Managers throughout the Bank are required to establish a strong internal control structure to minimise the risk of operational and financial failure.

Operational risk is managed through the Risk Management function, in accordance with the Basel Committee guidelines and CBK instructions issued in 2003 regarding 'Sound Practices for the Management and Supervision of Operational Risk' and the CBK instructions issued in 1996 on 'Internal Control Systems'. Risk Management approves all of the Bank's policies and procedures, prior to gaining the approval of the Executive Committee and the Board of Directors. Internal Audit monitors compliance with policies and procedures through an independent program of regular reviews and there is a comprehensive annual Internal Controls Review ('ICR') conducted by an external accounting firm. The Bank's Audit Committee reviews the internal audit and ICR reports and a copy of the ICR report is submitted to CBK. Risk mitigation, including insurance, is considered where it is cost-effective and the Bank maintains contingency facilities to support operations in the event of disasters.

Interest Rate Risk (Banking Book)

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates. Several measures are used by ALCO to monitor and limit non-trading interest rate risk, including scenario analysis, interest rate gap analysis and market value limits. Treasury monitors and controls the Bank's interest rate gaps using the IPS Sendero asset and liability management ('ALM') software package. The potential profit and loss implications are regularly reviewed at ALCO to ensure that they are within the Bank's limited appetite for interest rate risk.

In reality, the Bank has limited exposure to interest rate risk since most of the Bank's assets and liabilities are floating rate and tied either to the CBK discount rate, Kuwait interbank offered rates ('KIBOR') or USD LIBOR. Most deposits and loans tend to reprice simultaneously which renders interest rate hedging largely unnecessary.

Equity Risk (Banking Book)

The strategic investments group is responsible for managing the investment securities portfolio in the banking (i.e. non-trading) book. In accordance with IAS 39, the assets are classified as 'available for sale', i.e. assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The assets are initially recognised at fair value and the subsequent unrealised gains and losses arising from changes in fair value are taken to the fair value reserve in equity. When the asset is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

The strategy for minimising and managing equity risk in the banking book is one of diversification. The overall aim is to minimise economic and political risk, and to minimise the correlation of the portfolio to market volatility by maintaining the majority of investments in asset classes with low correlation to the market. Similarly, limits are set for exposure to a single company, and for the maximum possible investment relative to the Bank's capital. CBK also sets a maximum limit of 50% of the Bank's capital for investment in securities.

Credit Risk Exposures

Gulf Bank's internal grading process for credit facilities is designed to highlight exposures requiring greater management attention based on a higher probability of default and potential loss. Note 26 (A) to the financial statements explains Bank's internal grading process in detail.

The classification is applied to the whole credit relationship and not just the specific transaction or account in trouble. Problem loans are classified in accordance with CBK regulations, and a quarterly report detailing the problem loans is submitted to CBK.

The quality of the loan portfolio and the adequacy of the impairment provisions for loans and advances are reviewed monthly by the Classification and Provisions Committee ('CPC'). Charges for new provisions or releases of existing provisions are calculated for each non-performing credit facility, based on the loan classification, the Bank's aggregate exposure to the customer (including any contingent liabilities) and the value (and enforceability) of any collateral. Two types of impairment provision are taken: specific and general. Specific provisions represent the quantification of actual and inherent losses from individually identified accounts. General provisions augment specific provisions and provide cover for loans which may be impaired at the balance sheet date but which will not be individually identified as such until some time in the future. Charges for impairment provisions are reflected in the Bank's income statement. Any increase in these provisions has the effect of reducing Gulf Bank's profit by a corresponding amount (while any decrease in provisions or release of provisions has the opposite effect). The provisions are deducted from the gross loans and advances in the balance sheet. Loans (and the related specific provisions) are written off (normally in full) when there is no realistic prospect of recovery of the outstanding amounts.

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the State of Kuwait for financial services institutions regulated by CBK. These regulations require adoption of all IFRS requirements except for the IAS 39 requirements relating to collective impairment provisions on credit facilities. The policy of the Bank for the calculation of specific impairment provisions complies in all material respects with the specific provision requirements of CBK. The categorisation of non-performing loans is as follows:

Category	Overdue (Days)	Specific Provision
Below standard	91-180	20%
Doubtful	181-365	50%
Bad	>1 year	100%

The Bank also complies with IAS 39 and assesses the need for specific credit impairment provisions by calculating the net present value of the expected future cash flows for each loan. The specific provisions are calculated on the net amount outstanding after deducting the current market value of any eligible collateral.

In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non-cash facilities. The required rates are effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral during the reporting period. The minimum 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 further directive from the Central Bank of Kuwait. The IAS 39 requirements regarding collective provisions have been replaced by CBK's requirement for a minimum general provision of 1% on all cash and 0.5% on non-cash credit facilities to customers. The assessment of general provision requirements is also based on judgement as to whether the current economic and credit conditions are such that the actual level of inherent loss in the current loan portfolio is likely to be greater than the amount currently provided for by the stock of available specific provisions.

The Bank exercises tight control over its loan portfolio to prevent loans going bad in the first place. The loan portfolio is monitored on a regular basis to ensure the early detection of potential credit problems. The relationship managers are responsible for the day-to-day monitoring of their accounts, but the independent credit control unit also undertakes regular 'post fact' credit reviews after the loans have been disbursed. The credit control unit also submits regular surveillance reports to senior management regarding the following matters: collateral; insurance and guarantee details; values and expiry dates; documentation deficiencies; credit portfolio analysis by risk rating; and any incidents of non-compliance by borrowers with additional loan approval conditions imposed by the Management Sub-Committee (MSC) or the Executive Credit Committee (ECC). The authority and responsibilities of MSC and ECC are explained in detail in note 26 (A) to the financial statements.

The CPC meets monthly to follow up and monitor the status of the Bank's non-performing loans. A detailed report showing all past dues and excesses over 10 days (not just classified accounts) is circulated to division heads and account officers on a monthly basis for their immediate follow up. This report is reviewed with the loan officers at the monthly CPC meeting to determine necessary corrective actions and/or provisioning requirements. CPC reviews and independently evaluates the quality of the credit facilities extended by the Bank and ensures that they are in accordance with the credit policy of the Bank and CBK requirements.

The Bank also has a separate, specialist remedial credit unit reporting to Deputy General Manager, Credit Control, who is responsible for handling non-performing loans. The remedial unit provides customers with intensive management and control support in order to help them avoid default wherever possible, thereby ensuring maximum recoveries for the Bank. The remedial unit reports on the progress made on each non-performing loan account to CPC on a monthly basis, and provides a monthly progress report for each such account to the MSC. In addition, the Bank's legal department is fully involved throughout the remedial process, initiating appropriate legal action where necessary.

Credit exposures may be reduced by the use of approved credit risk mitigation techniques (see the discussion of 'credit risk mitigation' below).

During the year, in accordance with Central Bank of Kuwait -Circular No. 2/202/BS,BSA,RS,RSA/2007 dated 13 February 2007, adjustments were made as described in Note 5 to the financial statements.

Gross Credit Risk Exposure

The summary of Gulf Bank's gross credit risk exposure (before credit risk mitigation) in 2007 and 2006 is shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

Gross Exposure

	KD Million		
Gross Exposure	**31 Dec 07**	**31 Dec 06**	**Growth**
Funded Gross Credit Exposure	**5,133.6**	4,099.2	25.2%
Unfunded Gross Credit Exposure	**2,344.1**	1,487.1	57.6%
Total Gross Credit Risk Exposure	**7,477.7**	5,586.3	33.9%

Funded gross credit exposure for 2007 is 68.7% (2006: 73.4%) of the total gross credit risk exposure.

Average Credit Risk Exposure:

	KD Million		
Average Gross Exposure	**31 Dec 07**	**31 Dec 06**	**Growth**
Funded Gross Credit Risk Exposure	**4,535.3**	3,333.1	36.1%
Unfunded Gross Credit Risk Exposure	**1,943.5**	1,224.2	58.8%
	6,478.8	4,557.3	42.2%

Average funded gross credit risk exposure for 2007 is 70.0% (2006: 73.1%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2006 to 31 December 2007 inclusive.

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2007 and 31 December 2006 is shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2007 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	647,110	144,895	-	-	88,725	-	880,730
Claims on PSEs	-	188,885	67,300	-	-	-	256,185
Claims on banks	223,767	681,988	47,399	5,955	87,106	1,664	1,047,879
Claims on corporates	3,422,317	450,510	76,284	-	8,166	92,578	4,049,855
Regulatory retail exposures	658,863	62	247	110	58	250	659,590
Past due exposures	24,598	-	-	-	-	-	24,598
Other assets	323,302	9,317	5,879	190	-	199,426	538,114
Total	5,320,721	1,475,657	197,109	6,255	184,055	293,918	7,477,715
Percentage of gross exposure by geographical region	71.2%	19.7%	2.6%	0.1%	2.5%	3.9%	100.0%

Total gross credit risk exposures as at 31 December 2006 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	27,350	-	-	-	-	-	27,350
Claims on sovereigns	870,575	47,694	-	-	17,348	-	935,617
Claims on PSEs	-	47,174	-	-	-	-	47,174
Claims on banks	67,573	185,786	187,277	15,758	126,138	3,061	585,593
Claims on corporates	2,532,641	282,132	72,233	-	6,144	28,814	2,921,964
Regulatory retail exposures	661,618	231	-	-	33	209	662,091
Past due exposures	19,985	-	-	-	-	-	19,985
Other assets	276,957	7,857	940	124	-	100,602	386,480
Total	4,456,699	570,874	260,450	15,882	149,663	132,686	5,586,254
Percentage of gross exposure by geographical region	79.8%	10.2%	4.7%	0.3%	2.7%	2.4%	100.0%

Geographical Distribution of Gross Credit Risk Exposures *(continued)*

Funded (On-balance-sheet) credit facilities at 31 December 2007 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	647,098	-	-	-	-	-	647,098
Claims on PSEs	-	57,708	42,730	-	-	-	100,438
Claims on banks	217,372	604,171	33,259	2,946	346	51	858,145
Claims on corporates	2,230,890	70,086	-	-	4,644	92,578	2,398,198
Regulatory retail exposures	635,878	34	247	110	58	250	636,577
Past due exposures	23,765	-	-	-	-	-	23,765
Other assets	233,772	9,317	5,879	190	-	199,426	448,584
Total	4,009,539	741,316	82,115	3,246	5,048	292,305	5,133,569
Percentage of gross exposure by geographical region	78.1%	14.4%	1.6%	0.1%	0.1%	5.7%	100.0%

Funded (On-balance-sheet) credit facilities at 31 December 2006 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	27,350	-	-	-	-	-	27,350
Claims on sovereigns	870,575	-	-	-	-	-	870,575
Claims on PSEs	-	47,174	-	-	-	-	47,174
Claims on banks	58,155	162,788	165,593	12,490	24,795	-	423,821
Claims on corporates	1,615,146	69,539	14,457	-	240	28,814	1,728,196
Regulatory retail exposures	640,136	28	-	-	33	209	640,406
Past due exposures	19,240	-	-	-	-	-	19,240
Other assets	232,895	7,857	940	124	-	100,602	342,418
Total	3,463,497	287,386	180,990	12,614	25,068	129,625	4,099,180
Percentage of gross exposure by geographical region	84.5%	7.0%	4.4%	0.3%	0.6%	3.2%	100.0%

Unfunded (Off-balance-sheet) credit facilities at 31 December 2007 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	12	144,895	-	-	88,725	-	233,632
Claims on PSEs	-	131,177	24,570	-	-	-	155,747
Claims on banks	6,395	77,817	14,140	3,009	86,760	1,613	189,734
Claims on corporates	1,191,427	380,424	76,284	-	3,522	-	1,651,657
Regulatory retail exposures	22,985	28	-	-	-	-	23,013
Past due exposures	833	-	-	-	-	-	833
Other assets	89,530	-	-	-	-	-	89,530
Total	1,311,182	734,341	114,994	3,009	179,007	1,613	2,344,146
Percentage of gross exposure by geographical region	55.9%	31.4%	4.9%	0.1%	7.6%	0.1%	100.0%

Unfunded (Off-balance-sheet) credit facilities at 31 December 2006 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	-	47,694	-	-	17,348	-	65,042
Claims on PSEs	-	-	-	-	-	-	-
Claims on banks	9,418	22,998	21,684	3,268	101,343	3,061	161,772
Claims on corporates	917,495	212,593	57,776	-	5,904	-	1,193,768
Regulatory retail exposures	21,482	203	-	-	-	-	21,685
Past due exposures	745	-	-	-	-	-	745
Other assets	44,062	-	-	-	-	-	44,062
Total	993,202	283,488	79,460	3,268	124,595	3,061	1,487,074
Percentage of gross exposure by geographical region	66.8%	19.1%	5.3%	0.2%	8.4%	0.2%	100.0%

Geographical Distribution of Gross Credit Risk Exposures *(continued)*

The bulk of the Bank's credit exposure is in Kuwait: KD5.32 billion (71.2% of total gross credit exposure) at 31 December 2007, compared with KD4.46 billion (79.8% of total gross credit exposure) at 31 December 2006.

The claims on corporates mix increased from 52% in 2006 to 54% by 2007 of total gross exposures reflecting the strong growth within the corporate portfolio. Regulatory retail exposures declined from 12% in 2006 to 9% by 2007 as a result of the tightening of credit within this market.

Claims on banks: 14.0% of gross exposure at 31 December 2007 (2006: 10.5%). The significant exposure in Kuwait against claims on sovereigns (KD647.1 million at end 2007) reflects the Bank's holdings of Kuwait Government treasury bonds and CBK bonds, and current account/deposit balances with CBK.

Geographical Distribution of Average Gross Credit Risk Exposures

The average gross credit risk exposure for 2007 and 2006, broken down by geographical region and standard credit risk portfolio and split between funded and unfunded exposure, is shown on the next page.

Geographical Distribution of Average Gross Credit Risk Exposures *(continued)*

Total gross credit risk exposures as at 31 December 2007 (Average) - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	21,354	-	-	-	-	-	21,354
Claims on sovereigns	919,887	104,652	-	-	40,264	-	1,064,803
Claims on PSEs	-	142,758	14,313	-	-	13,687	170,758
Claims on banks	7,225	191,604	86,796	12,381	92,872	248,330	639,208
Claims on corporates	2,883,713	433,782	67,443	-	7,103	52,829	3,444,870
Regulatory retail exposures	656,400	17,586	140	9	49	250	674,434
Past due exposures	27,215	-	-	-	-	4	27,219
Other assets	234,929	9,226	2,679	195	-	189,134	436,163
Total	4,750,723	899,608	171,371	12,585	140,288	504,234	6,478,809
Percentage of gross exposure by geographical region	73.3%	13.9%	2.6%	0.2%	2.2%	7.8%	100.0%

Total gross credit risk exposures as at 31 December 2006 (Average) - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,680	-	-	-	-	-	20,680
Claims on sovereigns	677,186	36,862	-	-	17,348	-	731,396
Claims on PSEs	-	19,064	-	-	-	-	19,064
Claims on banks	84,702	113,419	137,294	9,894	105,116	2,318	452,743
Claims on corporates	2,038,656	256,523	43,275	133	5,028	27,488	2,371,103
Regulatory retail exposures	601,298	97	6	-	1,869	102	603,372
Past due exposures	29,701	7,247	22	-	-	1,063	38,033
Other assets	228,819	6,310	701	101	-	84,969	320,900
Total	3,681,042	439,522	181,298	10,128	129,361	115,940	4,557,291
Percentage of gross exposure by geographical region	80.8%	9.6%	4.0%	0.2%	2.8%	2.6%	100.0%

Geographical Distribution of Average Gross Credit Risk Exposures (continued)

Funded (On-balance-sheet) credit facilities (Average) as at 31 December 2007 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**21,354**	-	-	-	-	-	**21,354**
Claims on sovereigns	**919,870**	-	-	-	-	-	**919,870**
Claims on PSEs	-	**22,351**	**14,313**	-	-	**13,687**	**50,351**
Claims on banks	-	**130,292**	**70,707**	**9,969**	**1,682**	**246,244**	**458,894**
Claims on corporates	**1,893,469**	**77,883**	**4,875**	-	**2,864**	**52,829**	**2,031,920**
Regulatory retail exposures	**635,404**	**17,507**	**140**	**9**	**49**	**250**	**653,359**
Past due exposures	**23,329**	-	-	-	-	**4**	**23,333**
Other assets	**175,029**	**9,226**	**2,679**	**195**	-	**189,134**	**376,263**
Total	**3,668,455**	**257,259**	**92,714**	**10,173**	**4,595**	**502,148**	**4,535,344**
Percentage of gross exposure by geographical region	**80.9%**	**5.7%**	**2.0%**	**0.2%**	**0.1%**	**11.1%**	**100.0%**

Funded (On-balance-sheet) credit facilities (Average) as at 31 December 2006 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,680	-	-	-	-	-	**20,680**
Claims on sovereigns	677,186	-	-	-	-	-	**677,186**
Claims on PSEs	-	19,064	-	-	-	-	**19,064**
Claims on banks	77,508	91,345	119,017	7,398	14,365	2	**309,635**
Claims on corporates	1,295,049	56,265	3,022	120	629	27,488	**1,382,573**
Regulatory retail exposures	585,915	29	-	-	1,869	102	**587,915**
Past due exposures	28,841	7,247	22	-	-	1,063	**37,173**
Other assets	206,771	6,308	701	101	-	84,969	**298,850**
Total	**2,891,950**	**180,258**	**122,762**	**7,619**	**16,863**	**113,624**	**3,333,076**
Percentage of gross exposure by geographical region	**86.8%**	**5.4%**	**3.7%**	**0.2%**	**0.5%**	**3.4%**	**100.0%**

Unfunded (Off-balance-sheet) Credit Facilities (Average) as at 31 December 2007 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	17	104,652	-	-	40,264	-	144,933
Claims on PSEs	-	120,407	-	-	-	-	120,407
Claims on banks	7,225	61,312	16,089	2,412	91,190	2,086	180,314
Claims on corporates	990,244	355,899	62,568	-	4,239	-	1,412,950
Regulatory retail exposures	20,996	79	-	-	-	-	21,075
Past due exposures	3,886	-	-	-	-	-	3,886
Other assets	59,900	-	-	-	-	-	59,900
Total	1,082,268	642,349	78,657	2,412	135,693	2,086	1,943,465
Percentage of gross exposure by geographical region	55.7%	33.1%	4.0%	0.1%	7.0%	0.1%	100.0%

Unfunded (Off-balance-sheet) Credit Facilities (Average) as at 31 December 2006 - Region wise

(KD thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	-	36,862	-	-	17,348	-	54,210
Claims on PSEs	-	-	-	-	-	-	-
Claims on banks	7,194	22,074	18,277	2,496	90,751	2,316	143,108
Claims on corporates	743,607	200,258	40,253	13	4,399	-	988,530
Regulatory retail exposures	15,383	68	6	-	-	-	15,457
Past due exposures	860	-	-	-	-	-	860
Other assets	22,048	2	-	-	-	-	22,050
Total	789,092	259,264	58,536	2,509	112,498	2,316	1,224,215
Percentage of gross exposure by geographical region	64.4%	21.2%	4.8%	0.2%	9.2%	0.2%	100.0%

The 2007 full year average figures show the same broad distribution as the year-end figures.

Industry Segment Distribution of Gross Credit Risk Exposures

The industry segment split of the gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2007 and 31 December 2006 is shown below.

Total gross credit risk exposures as at 31 December 2007 - Industry wise

(KD thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufac-turing	Real estate	Other services	Total
Cash items	-	-	-	-	-	-	-	20,764	20,764
Claims on sovereigns	-	-	-	-	-	-	-	880,730	880,730
Claims on PSEs	-	-	-	-	-	-	-	256,185	256,185
Claims on banks	-	1,047,879	-	-	-	-	-	-	1,047,879
Claims on corporates	196,812	429,130	412,648	2,472	756,022	573,468	772,186	907,117	4,049,855
Regulatory retail exposures	613,721	-	9,563	62	10,573	6,933	5,384	13,354	659,590
Past due exposures	6,679	-	8,934	-	4,788	2,027	1,632	538	24,598
Other assets	-	626	17,283	-	52,253	3,329	103,695	360,928	538,114
Total	817,212	1,477,635	448,428	2,534	823,636	585,757	882,897	2,439,616	7,477,715
Percentage of exposure by industry segment	10.9%	19.8%	6.0%	0.1%	11.0%	7.8%	11.8%	32.6%	100.0%

Total gross credit risk exposures as at 31 December 2006 - Industry wise

(KD thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufac-turing	Real estate	Other services	Total
Cash items	-	-	-	-	-	-	-	27,350	27,350
Claims on sovereigns	-	-	-	-	-	-	-	935,617	935,617
Claims on PSEs	-	47,174	-	-	-	-	-	-	47,174
Claims on banks	-	585,593	-	-	-	-	-	-	585,593
Claims on corporates	144,332	380,606	487,738	15,979	822,183	217,205	403,825	450,096	2,921,964
Regulatory retail exposures	615,221	2	13,026	163	10,009	4,736	5,881	13,053	662,091
Past due exposures	3,640	-	8,234	-	165	627	2,234	5,085	19,985
Other assets	881	-	10,541	-	18,398	1,494	139,002	216,164	386,480
Total	764,074	1,013,375	519,539	16,142	850,755	224,062	550,942	1,647,365	5,586,254
Percentage of exposure by industry segment	13.7%	18.1%	9.3%	0.3%	15.2%	4.0%	9.9%	29.5%	100.0%

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2007 and 31 December 2006 is shown below.

Total gross credit risk exposure as at 31 December 2007 - Residual Maturity

(KD thousands)	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	79,391	220,007	106,912	184,258	77,412	212,750	880,730
Claims on PSEs	-	-	-	44,363	13,345	198,477	256,185
Claims on banks	524,199	220,059	108,253	54,894	74,292	66,182	1,047,879
Claims on corporates	636,549	708,847	876,364	772,681	556,344	499,070	4,049,855
Regulatory retail exposures	32,552	9,377	11,547	12,954	32,009	561,151	659,590
Past due exposures	24,598	-	-	-	-	-	24,598
Other assets	41,987	10,122	49,061	82,232	15,945	338,767	538,114
Total	1,360,040	1,168,412	1,152,137	1,151,382	769,347	1,876,397	7,477,715
Percentage of gross exposure by residual contract maturity	18.2%	15.6%	15.4%	15.4%	10.3%	25.1%	100.0%

Total gross credit risk exposure as at 31 December 2006 - Residual Maturity

(KD thousands)	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	27,350	-	-	-	-	-	27,350
Claims on sovereigns	525,062	121,906	51,154	60,194	65,999	111,302	935,617
Claims on PSEs	-	-	-	-	47,174	-	47,174
Claims on banks	267,192	115,476	41,797	57,634	80,725	22,769	585,593
Claims on corporates	469,080	578,468	677,899	455,105	418,118	323,294	2,921,964
Regulatory retail exposures	34,623	11,470	11,560	17,109	26,885	560,444	662,091
Past due exposures	8,318	299	347	555	1,114	9,352	19,985
Other assets	29,784	16,706	11,317	64,910	23,670	240,093	386,480
Total	1,361,409	844,325	794,074	655,507	663,685	1,267,254	5,586,254
Percentage of gross exposure by residual contract maturity	24.4%	15.1%	14.2%	11.7%	11.9%	22.7%	100.0%

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segment

The industry segment split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific, general and total) as at 31 December 2007 and 31 December 2006 is shown below.

Impaired loans and provisions (by industry segment) at 31 December 2007

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Personal	7,892	25,426	17,534	15,425	32,959	69.0%
Financial	-	5,932	5,932	11,388	17,320	100.0%
Trade and commerce	8,652	9,088	446	7,071	7,517	4.9%
Crude oil and gas	-	390	390	168	558	100.0%
Construction	880	3,589	2,766	13,068	15,834	77.1%
Manufacturing	150	777	629	6,326	6,955	81.0%
Real estate	1,542	1,793	251	12,286	12,537	14.0%
Government	-	1,318	1,318	861	2,179	100.0%
Others	4,649	8,019	3,374	8,643	12,017	42.1%
Total	**23,765**	**56,332**	**32,640**	**75,236**	**107,876**	**57.9%**

Impaired loans and provisions (by industry segment) at 31 December 2006

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Personal	3,640	12,482	8,842	14,091	22,933	70.8%
Financial	-	6,223	6,223	12,298	18,521	100.0%
Trade and commerce	8,234	8,756	532	8,131	8,663	6.1%
Crude oil and gas	-	413	413	261	674	100.0%
Construction	85	2,570	2,485	12,823	15,308	96.7%
Manufacturing	625	916	291	6,069	6,360	31.8%
Real estate	2,164	2,476	312	8,973	9,285	12.6%
Government	-	1,290	1,290	1,501	2,791	100.0%
Others	4,492	7,824	3,332	4,266	7,598	42.6%
Total	**19,240**	**42,950**	**23,720**	**68,413**	**92,133**	**55.2%**

Non-performing loans ('NPLs') increased by KD13.4 million (31%) in 2007, from KD43.0 million at 31 December 2006 to KD56.3 million at 31 December 2007 mainly due to the increase in NPLs in the personal loan portfolio. Personal Loan NPL increased by KD12.9 million, from KD12.5 million at end 2006 (29.1% of total NPLs) to KD25.4 million (45.1% of total NPLs) at 31 December 2007 due to increased delinquencies within this market segment.

Specific provisions cover has increased from 55.2% of NPLs in 2006 to 57.9% of NPLs at 31 December 2007; and total provisions cover (including general provisions), decreased from 214.5% to 191.5% mainly due to lower general provision requirement on incremental loan balances in 2007 as per revised CBK regulations.

Provision Charges by Industry Segment

The industry segment split of the provision charges and write-offs in 2007 is shown on the next page.

Provision Charges by Industry Segment *(continued)*

Provision Charges and Write-offs during 2007 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	8,022	1,334	9,356	192
Financial	127	(910)	(783)	
Trade and commerce	(86)	(1,060)	(1,146)	
Crude oil and gas	(23)	(93)	(116)	
Construction	281	245	526	
Manufacturing	338	257	595	
Real estate	(61)	3,313	3,252	
Government	28	(640)	(612)	
Others	42	4,377	4,419	
Total	8,668	6,823	15,491	192

Provision Charges and Write-offs during 2006 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	3,099	2,749	5,848	67
Financial	(56)	2,295	2,239	
Trade and commerce	(48)	259	211	
Crude oil and gas	(4)	14	10	
Construction	(218)	2,990	2,772	
Manufacturing	143	727	870	
Real estate	(97)	3,815	3,718	
Government	82	(364)	(282)	
Others	351	(338)	13	
Total	3,252	12,147	15,399	67

The total net provisions charge in 2007 of KD15.5 million comprised specific provisions of KD8.7 million and general provisions of KD6.8 million. The decrease in the general provisions charge is due to the revised CBK guidelines on general provisions.

Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2007 and 31 December 2006 is shown on the next page.

Impaired loans and provisions (by Geographical Region) at 31 December 2007

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	23,765	43,915	20,223	67,388	87,611	46.1%
Other Middle East	-	11,075	11,075	4,718	15,793	100.0%
Western Europe	-	24	24	1,494	1,518	100.0%
USA & Canada	-	-	-	10	10	0.0%
Asia Pacific	-	-	-	410	410	0.0%
Rest of World	-	1,318	1,318	1,216	2,534	100.0%
Total	23,765	56,332	32,640	75,236	107,876	57.9%

Impaired loans and provisions (by Geographical Region) at 31 December 2006

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	19,240	30,134	10,904	60,961	71,865	36.2%
Other Middle East	-	11,503	11,503	5,658	17,161	100.0%
Western Europe	-	23	23	1,206	1,229	100.0%
USA & Canada	-	-	-	-	-	0.0%
Asia Pacific	-	-	-	103	103	0.0%
Rest of World	-	1,290	1,290	485	1,775	100.0%
Total	19,240	42,950	23,720	68,413	92,133	55.2%

Movement in Provisions for Impaired Loans

The movements in the provisions for loan impairment between 31 December 2006 and 31 December 2007 is given in Note 12 to the financial statements.

Credit Exposure

Total Credit Exposure after applying Credit conversion factor but before Credit Risk Mitigation

The total credit exposure after applying the relevant Basel II standardised approach credit conversation factors ('CCF') but before credit risk mitigation ('CRM') as at 31 December 2007 and 31 December 2006, broken down by standard credit risk portfolio, is shown below.

GROSS CREDIT RISK EXPOSURE BEFORE CRM AS AT 31 DECEMBER 2007

	GROSS CREDIT EXPOSURE			CREDIT EXPOSURE BEFORE CRM			
	FUNDED	UNFUNDED	TOTAL	FUNDED	UNFUNDED AFTER CCF	FX CONTRACTS AFTER CCF	TOTAL BEFORE CRM
Cash items	**20,764**	**-**	**20,764**	**20,764**	**-**	**-**	**20,764**
Claims on sovereigns	**647,098**	**233,632**	**880,730**	**647,098**	**233,626**	**192**	**880,916**
Claims on PSEs	**100,438**	**155,747**	**256,185**	**100,438**	**155,747**	**-**	**256,185**
Claims on banks	**858,145**	**189,734**	**1,047,879**	**858,145**	**113,948**	**6,017**	**978,109**
Claims on Corporates	**2,398,198**	**1,651,657**	**4,049,855**	**2,398,198**	**692,513**	**1,575**	**3,092,286**
Regulatory retail exposures	**636,577**	**23,013**	**659,590**	**636,577**	**9,377**	**-**	**645,954**
Past due exposures	**23,765**	**833**	**24,598**	**23,765**	**417**	**-**	**24,182**
Other assets	**448,584**	**89,530**	**538,114**	**448,584**	**52,254**	**-**	**500,838**
Total	**5,133,569**	**2,344,146**	**7,477,715**	**5,133,569**	**1,257,882**	**7,784**	**6,399,234**

GROSS CREDIT RISK EXPOSURE BEFORE CRM AS AT 31 DECEMBER 2006

	GROSS CREDIT EXPOSURE			CREDIT EXPOSURE BEFORE CRM			
	FUNDED	UNFUNDED	TOTAL	FUNDED	UNFUNDED AFTER CCF	FX CONTRACTS AFTER CCF	TOTAL BEFORE CRM
Cash items	27,350	-	**27,350**	27,350	-	-	**27,350**
Claims on Sovereigns	870,575	65,042	**935,617**	870,575	65,042	-	**935,617**
Claims on PSEs	47,174	-	**47,174**	47,174	-	-	**47,174**
Claims on banks	423,821	161,772	**585,593**	423,821	79,761	2,958	**506,540**
Claims on Corporates	1,728,196	1,193,768	**2,921,964**	1,728,196	460,000	2,614	**2,190,810**
Regulatory retail exposures	640,406	21,685	**662,091**	640,406	8,777	-	**649,183**
Past due exposures	19,240	745	**19,985**	19,240	373	-	**19,613**
Other assets	342,418	44,062	**386,480**	342,418	28,140	-	**370,558**
Total	**4,099,180**	**1,487,074**	**5,586,254**	**4,099,180**	**642,093**	**5,572**	**4,746,845**

Credit Risk Mitigation (CRM)

Under the Basel II standardised approach for credit risk, credit risk mitigation ('CRM') techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. CBK has instructed the banks in Kuwait to use the 'comprehensive approach' for CRM, whereby the gross credit exposure is effectively reduced by the value ascribed to the collateral. Three types of CRM techniques are recognised by CBK: eligible financial collateral (such as cash deposits and equities listed on a recognised stock exchange); legally enforceable on-balance-sheet netting arrangements for loans and deposits; and unconditional, irrevocable guarantees.

Gulf Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimise credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with Gulf Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

Collaterals consist primarily of equities listed on the Kuwait Stock Exchange; real estate (land and buildings); fixed term deposits and cash balances with Gulf Bank that are blocked and legally pledged in the Bank's favour; and direct, explicit, irrevocable and unconditional bank guarantees. In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The personal/corporate guarantees and the real estate collateral do not constitute eligible CRM techniques for capital adequacy purposes under the Basel II standardised approach.

The Bank's credit procedures include very conservative minimum collateral coverage ratios, supported by strict top-up ratios. When the value of the collateral held in respect of a particular loan falls below the initial prescribed collateral coverage ratio and reaches the top up ratio threshold, the customer is requested to provide additional collateral in order to restore the prescribed collateral coverage ratio. Real estate collateral is valued once a year by independent real estate valuers (the lowest of two valuations being taken) and quoted shares are valued daily using current stock exchange prices.

The liquidity of the collateral taken by the Bank has been significantly enhanced in recent years through the introduction of a portfolio scheme whereby the collateral (typically local shares or real estate) is held by an approved portfolio manager who is independent of the Bank.As part of the collateral management scheme, the customer provides a power of attorney authorising the Bank to liquidate the portfolio of collateral at the Bank's discretion in the event of any default in the payment of the covered loan. The Bank actively promotes the adoption of the portfolio scheme for new lending and loan renewals and an increasing share of the collateral taken by the Bank is held in the portfolio scheme. This enhances the security of repayment and the liquidity of the Bank's collateral. The portfolio managers provide portfolio valuations weekly.

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (normally a Government Ministry) to pay their salary directly to their Gulf Bank account. Collateral or security, normally in the form of a blocked customer deposit with Gulf Bank, the assignment of an employment 'End of Service Benefit' or a personal guarantee, is taken on the rare occasions when consumer loans are granted without an assignment of salary.

Total Credit Exposure after Credit Risk Mitigation (CRM) and Resulting Credit Risk Weighted Assets

The exposure after CRM, as at 31 December 2007 and 31 December 2006 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures and are given on the next page:

Total Credit Exposure after Credit Risk Mitigation (CRM) and Resulting Credit Risk Weighted Assets *(continued)*

CREDIT RISK EXPOSURE AFTER CRM; RISK-WEIGHTED ASSETS (RWAs) AS AT 31 DECEMBER 2007

	CREDIT EXPOSURE/CRM			RISK-WEIGHTED ASSETS		
	EXPOSURE BEFORE CRM	CRM	EXPOSURE AFTER CRM	RATED	UNRATED	TOTAL
Cash items	20,764	-	20,764	-	-	-
Claims on sovereigns	880,916	12	880,904	-	5,460	5,460
Claims on PSEs	256,185	-	256,185	-	70,893	70,893
Claims on banks	978,109	22,690	955,419	286,183	-	286,183
Claims on corporates	3,092,286	1,802,890	1,289,396	-	1,289,396	1,289,396
Regulatory retail exposures	645,954	48,213	597,741	-	448,306	448,306
Past due exposures	24,182	-	24,182	-	24,171	24,171
Other assets	500,838	3,550	497,288	-	497,288	497,288
Total	6,399,234	1,877,355	4,521,879	286,183	2,335,514	2,621,697

CREDIT RISK EXPOSURE AFTER CRM; RISK-WEIGHTED ASSETS (RWAs) AS AT 31 DECEMBER 2006

	CREDIT EXPOSURE/CRM			RISK-WEIGHTED ASSETS		
	EXPOSURE BEFORE CRM	CRM	EXPOSURE AFTER CRM	RATED	UNRATED	TOTAL
Cash items	27,350	-	27,350	-	-	-
Claims on sovereigns	935,617	-	935,617	3,470	-	3,470
Claims on PSEs	47,174	-	47,174	-	9,435	9,435
Claims on banks	506,540	54,173	452,367	137,104	-	137,104
Claims on corporates	2,190,810	1,165,462	1,025,348	-	1,025,348	1,025,348
Regulatory retail exposures	649,183	49,466	599,717	-	449,788	449,788
Past due exposures	19,613	-	19,613	-	19,526	19,526
Other assets	370,558	2,222	368,336	-	368,336	368,336
Total	4,746,845	1,271,323	3,475,522	140,574	1,872,433	2,013,007

Most of the CRM takes the form of eligible financial collateral, mainly equities listed on the Kuwait stock exchange and cash deposits.

Credit risk-weighted assets of KD2.62 billion at 31 December 2007 were mainly concentrated in claims on corporates: KD1.29 billion (49.2% of credit RWAs); retail exposures: KD447.8 million (17.1% of credit RWAs); and claims on banks: KD286.2 million (10.9% of credit RWAs).

The bulk of the credit facilities are unrated since very few corporate customers in Kuwait have external credit ratings from the three external credit assessment institutions approved by CBK, namely Standard & Poor's, Moody's Investors Service and Fitch Ratings. Rated credit risk-weighted assets comprised only KD286.2 million (10.9% of the total) and were concentrated in claims on banks.

Trading Portfolio

As defined in the Basel II guidelines, a trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.

The management of market risk in the trading portfolio is principally undertaken through strict risk limits, approved by senior management. Limits are specified for each dealer for maximum open currency positions and maximum losses. Adherence to these limits is strictly monitored and enforced by the Chief Dealer and the Treasurer.

All outstanding exposures are revalued daily on a mark-to-market basis. The independent treasury financial control team measures the market risk exposures and monitors and reports these exposures against the prescribed limits on a daily basis. The reports detail all outstanding positions by currency and show the profit and loss impact by dealer and the overall Bank profitability. The reports are circulated to the dealers and reviewed by the Chief Dealer and the Treasurer.

The prime responsibility for the mark-to-market valuation and related price verification process rests with the Bank's central financial control team. They are totally independent of the risk-taking treasury front office and they determine the fair values included in the Bank's financial statements and ensure that the accounting policies and procedures governing mark-to-market valuation and validation are strictly adhered to.

Gulf Bank uses the standardised approach for determining the capital required for market risk. The Bank does not use trading value at risk ('VAR') or an internal models approach for estimating and monitoring market risk exposure since the Bank's trading portfolio and open foreign exchange positions are limited.

Under the standardised approach, the risks subject to capital charges for market risk include the following: interest rate position risk relating to instruments in the trading book; equity position risk relating to instruments in the trading book; foreign exchange risk throughout the Bank; commodities risk throughout the Bank; and options. The capital charges for interest rate related instruments and equities apply to the market value of the items in the Bank's trading book. The capital charges for foreign exchange risk and commodities risk apply to the Bank's total currency and commodity positions (i.e. trading book and banking book).

Total market risk-weighted exposures are determined by multiplying the market risk capital charge by 8.33 (i.e. the reciprocal of the minimum CBK capital adequacy ratio requirement of 12%) and adding the resulting figure to the sum of credit and operational risk-weighted assets to yield the total risk-weighted exposures which are then used to calculate the Bank's capital adequacy ratio.

The details of the market risk capital charge for Gulf Bank as at 31 December 2007 and 31 December 2006 are shown on the next page.

Trading Portfolio *(continued)*

	(KD thousands)	
Market Risk	**31 Dec 07**	**31 Dec 06**
Interest rate position risk	**427**	1,462
Equity position risk	**-**	-
Foreign exchange risk	**174**	1,370
Commodities risk	**-**	-
Options	**-**	-
Total capital requirement for market risk	**601**	**2,832**
Market risk - weighted assets	**5,005**	**23,589**

The 31 December 2007 total market risk capital charge of KD601 thousand was equivalent to market risk-weighted assets of KD5.0 million. Market risk-weighted assets were KD18.58 million (79%) lower than 2006 reflecting a very modest level of market risk.

Operational Risk

Under the Basel II standardised approach for operational risk, a bank's activities are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage. Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of the business lines. The operational risk capital charge for each business line is therefore calculated by multiplying its gross income by a factor (denoted beta) assigned to that business line. The beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate gross income for that business line. The total operational risk capital charge is calculated as the summation of the three-year average gross income multiplied by the beta factor across each of the business lines in each year. The beta factors set by the Basel Committee, and used by CBK in the implementation of the standardised approach to operational risk in Kuwait, are: 18% (corporate finance, trading and sales, and payment and settlement); 15% (commercial banking and agency services); and 12% (retail banking, asset management, and retail brokerage).

Total operational risk-weighted exposures are determined by multiplying the operational risk capital charge by 8.33 (i.e. the reciprocal of the minimum CBK capital adequacy ratio requirement of 12%) and adding the resulting figure to the sum of credit and market risk-weighted assets to yield the total risk-weighted exposures which are then used to calculate the Bank's capital adequacy ratio.

Gulf Bank's business activities are mapped into the following three business lines: trading and sales, commercial banking and retail banking. The Bank's internal funds transfer pricing methodology is used to allocate interest income and interest expense between the three business lines. Senior management are responsible for the Bank's mapping policy and the Board of Directors approves the mapping.

The details of the operational risk capital charge for Gulf Bank as at 31 December 2007 and 31 December 2006 are shown in the following tables.

Operational Risk *(continued)*

Operational Risk as at 31 Dec 2007

(KD thousands)	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**29,644**	**18%**	**5,336**
Commercial banking	**55,561**	**15%**	**8,334**
Retail banking	**52,829**	**12%**	**6,339**
Total	**138,034**		**20,010**
Operational risk weighted exposure			**166,680**

Operational Risk as at 31 Dec 2006

(KD thousands)	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	26,170	18%	4,711
Commercial banking	44,250	15%	6,637
Retail banking	45,491	12%	5,459
Total	**115,911**		**16,807**
Operational risk weighted exposure			**140,003**

In accordance with the Basel II guidelines, gross income includes net interest income and non-interest income, but excludes realised profits from the sale of securities in the banking book. The 31 December 2007 total operational risk capital charge of KD20.0 million was equivalent to operational risk-weighted exposure of KD166.7 million.

Equity Risk in the Banking Book

Gulf Bank does not trade equities. All of the Bank's investment securities are held in the banking (i.e. non-trading) book and are classified as 'available for sale' financial assets, i.e. they represent assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. In accordance with IAS 39, the assets are initially recognised at fair value and the subsequent unrealised gains and losses arising from changes in fair value are taken to the fair value reserve in equity. When the asset is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate of interest for the instrument. The fair values of unquoted instruments are estimated using the applicable price/earnings or price/cash flow ratios, modified to reflect the specific circumstances of the issuer. The fair values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of the investment securities held at 31 December 2007 is shown below, along with the cumulative unrealised gains in the fair value reserve in equity and the regulatory capital implications. The income statement realisation gain from disposals made in 2007 is also shown.

Equity Risk in the Banking Book *(continued)*

Information related to the licensed bank's equity position in the banking book - 31 Dec 07

(KD thousands)	Publicly traded	Privately traded	Total investment securities
Fair value of investment securities			
Debt securities	-	-	-
Equity securities	**2,290**	**240,589**	**242,879**
Total	**2,290**	**240,589**	**242,879**
Unrealised gains in equity	**1,255**	**7,612**	**8,867**
Latent revaluation gains	-	-	-
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	**565**	**3,425**	**3,990**
Regulatory capital requirement	**207**	**28,459**	**28,666**
Income statement details			
Income from disposal of investment securities	**850**	**47,877**	**48,727**

Information related to the licensed bank's equity position in the banking book - 31 Dec 06

(KD thousands)	Publicly traded	Privately traded	Total investment securities
Fair value of investment securities			
Debt securities	2,255	716	**2,971**
Equity securities	2,363	154,050	**156,413**
Total	**4,618**	**154,766**	**159,384**
Unrealised gains in equity	918	18,014	**18,932**
Latent revaluation gains	-	-	-
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	413	8,106	**8,519**
Regulatory capital requirement	505	17,599	**18,104**
Income statement details			
Income from disposal of investment securities	1,258	11,298	**12,556**

Interest Rate Risk in the Banking Book

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates.

The sensitivity of net interest income to interest rate changes is provided in note 26 (B) to the financial statements.

ANCHORED TO OUR VALUES AND STRONGLY GROUNDED TOWARDS SUSTAINABLE GROWTH

Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF BANK K.S.C

We have audited the accompanying financial statements of Gulf Bank K.S.C ('the Bank'), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Bank and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended , or of the Articles of Association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Bank or on its financial position.

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

Bader A. Al-Wazzan
Licence No.62 A
PricewaterhouseCoopers
Al Aiban, Al Osaimi & Partners

Waleed A. Al Osaimi
Licence No. 68 A
Ernst & Young

14 January 2008
Kuwait

Income Statement

Year Ended 31 December 2007

		NOTES	2007 KD 000's	2006 KD 000's
Interest income		3 , 5	**315,305**	235,899
Interest expense		4	**208,753**	127,358
Net interest income			**106,552**	108,541
Net fees and commissions		6	**23,424**	26,077
Net gains from dealing in foreign currencies and derivatives			**14,957**	6,177
Dividend income			**773**	453
Income from disposal of investments available for sale			**48,727**	12,556
Other income		7	**1,139**	379
OPERATING INCOME			**195,572**	**154,183**
Staff expenses			**22,125**	17,912
Occupancy costs			**1,786**	1,359
Depreciation			**2,171**	1,683
Other expenses			**10,279**	8,025
Operating expenses			**36,361**	28,979
OPERATING PROFIT BEFORE PROVISIONS			**159,211**	125,204
Provisions for impairment	- specific		**8,668**	3,252
	- general		**6,823**	12,147
Loans written down		5	**8,391**	-
			23,882	15,399
OPERATING PROFIT			**135,329**	109,805
Contribution to Kuwait Foundation for the Advancement of Sciences			**1,354**	1,098
Directors' emoluments		23	**108**	108
National Labour Support Tax			**3,347**	2,716
Zakat			**83**	-
PROFIT FOR THE YEAR			**130,437**	105,883
BASIC AND DILUTED EARNINGS PER SHARE (Fils)		8	**122.142**	99.578

The attached notes 1 to 31 form part of these financial statements.

Balance Sheet

As at 31 December 2007

	NOTES	**2007 KD 000's**	2006 KD 000's
ASSETS			
Cash and short term funds	9	**584,266**	708,288
Treasury bonds	10	**412,907**	315,513
Central Bank of Kuwait bonds	11	**175,925**	119,165
Deposits with banks and other financial institutions		**313,741**	129,874
Loans and advances to banks	12	**37,993**	48,071
Loans and advances to customers	12	**3,268,796**	2,538,303
Investments available for sale	13	**242,879**	159,384
Other assets	14	**23,133**	22,061
Premises and equipment		**23,269**	19,292
TOTAL ASSETS		**5,082,909**	4,059,951
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**301,646**	229,029
Deposits from financial institutions	15	**874,465**	372,516
Customer deposits	16	**3,191,329**	2,838,780
Floating rate notes	17	**54,600**	57,828
Subordinated loans	18	**81,900**	86,742
Other liabilities	19	**88,345**	76,205
Total liabilities		**4,592,285**	3,661,100
EQUITY			
Share capital	20	**109,030**	94,809
Proposed bonus shares	23	**16,355**	14,221
Statutory reserve	21	**89,438**	75,905
General reserve	21	**2,356**	2,356
Share premium	21	**46,044**	46,044
Property revaluation reserve	21	**15,159**	11,781
Treasury share reserve		**27,928**	17,710
Fair valuation reserve		**8,867**	18,932
Retained earnings		**125,559**	94,893
		440,736	376,651
Treasury shares	22	**(19,932)**	(33,186)
		420,804	343,465
Proposed dividend	23	**69,820**	55,386
		490,624	398,851
TOTAL LIABILITIES AND EQUITY		**5,082,909**	4,059,951

Salah Khaled Al-Fulaij
Deputy Chairman

Louis Myers
Chief General Manager &
Chief Executive Officer

The attached notes 1 to 31 form part of these financial statements.

Cash Flow Statement

Year Ended 31 December 2007

	NOTE	2007 KD 000's	2006 KD 000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**130,437**	105,883
Adjustments:			
Dividend income		**(773)**	(453)
Income from disposal of investments available for sale		**(48,727)**	(12,556)
Depreciation		**2,171**	1,683
Effective interest rate adjustment		**11,309**	-
Loans written down		**8,391**	-
Provisions for impairment		**15,491**	15,399
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**118,299**	109,956
(Increase) decrease in operating assets:			
Treasury bonds		**(97,394)**	80,786
Central Bank of Kuwait bonds		**(56,760)**	(59,367)
Deposits with banks and other financial institutions		**(183,867)**	(112,504)
Loans and advances to banks		**10,078**	15,402
Loans and advances to customers		**(764,353)**	(970,271)
Other assets		**(1,072)**	3,230
Increase (decrease) in operating liabilities:			
Due to banks		**72,617**	163,185
Deposits from financial institutions		**501,949**	166,733
Customer deposits		**352,549**	1,009,779
Floating rate notes		**(3,228)**	(572)
Subordinated loans		**(4,842)**	42,942
Other liabilities		**10,809**	20,611
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(45,215)**	469,910
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments available for sale		**(227,472)**	(92,947)
Proceeds from sale of investments available for sale		**182,639**	53,830
Purchase of premises and equipment (net)		**(2,770)**	(2,931)
Dividends received		**773**	453
NET CASH USED IN INVESTING ACTIVITIES		**(46,830)**	(41,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(55,449)**	(51,007)
Purchase of treasury shares		**(4,298)**	(44,004)
Sale of treasury shares		**27,770**	27,337
NET CASH USED IN FINANCING ACTIVITIES		**(31,977)**	(67,674)
NET (DECREASE) INCREASE IN CASH AND SHORT TERM FUNDS		**(124,022)**	360,641
CASH AND SHORT TERM FUNDS AT 1 JANUARY		**708,288**	347,647
CASH AND SHORT TERM FUNDS AT 31 DECEMBER	9	**584,266**	708,288

 The attached notes 1 to 31 form part of these financial statements.

Statement of Changes in Equity

Year Ended 31 December 2007

	Share Capital KD 000's	Proposed Bonus Shares KD 000's	RESERVES Statutory Reserve KD 000's	General Reserve KD 000's	Share Premium KD 000's	Property Revaluation Reserve KD 000's	Treasury Share Reserve KD 000's	Fair Valuation Reserve KD 000's	Retained Earnings KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Proposed Dividend KD 000's	Total KD 000's
At 31 December 2005	86,190	8,619	64,924	2,356	46,044	7,669	12,587	17,087	69,510	220,177	(11,396)	51,095	354,685
Effect of changes in fair value of investments available for sale	-	-	-	-	-	-	-	11,805	-	11,805	-	-	11,805
Net realised gains during the year	-	-	-	-	-	-	-	(9,960)	-	(9,960)	-	-	(9,960)
Surplus on revaluation of properties	-	-	-	-	-	4,112	-	-	-	4,112	-	-	4,112
Income and expense directly recognised in equity	-	-	-	-	-	4,112	-	1,845	-	5,957	-	-	5,957
Profit for the year	-	-	-	-	-	-	-	-	105,883	105,883	-	-	105,883
Total recognised income and expense for the year	-	-	-	-	-	4,112	-	1,845	105,883	111,840	-	-	111,840
Issue of capital	8,619	(8,619)	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(44,004)	-	(44,004)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	22,214	-	22,214
Profit on sale of treasury shares	-	-	-	-	-	-	5,123	-	-	5,123	-	-	5,123
Transfer from profit	-	-	10,981	-	-	-	-	-	(10,981)	-	-	-	-
Proposed bonus shares	-	14,221	-	-	-	-	-	-	(14,221)	(14,221)	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	(55,386)	(55,386)	-	55,386	-
Dividend paid	-	-	-	-	-	-	-	-	88	88	-	(51,095)	(51,007)
At 31 December 2006	94,809	14,221	75,905	2,356	46,044	11,781	17,710	18,932	94,893	267,621	(33,186)	55,386	398,851
Effect of changes in fair value of investments available for sale	-	-	-	-	-	-	-	28,248	-	28,248	-	-	28,248
Net realised gains during the year	-	-	-	-	-	-	-	(38,313)	-	(38,313)	-	-	(38,313)
Surplus on revaluation of properties	-	-	-	-	-	3,378	-	-	-	3,378	-	-	3,378
Income and expense directly recognised in equity	-	-	-	-	-	3,378	-	(10,065)	-	(6,687)	-	-	(6,687)
Profit for the year	-	-	-	-	-	-	-	-	130,437	130,437	-	-	130,437
Total recognised income and expense for the year	-	-	-	-	-	3,378	-	(10,065)	130,437	123,750	-	-	123,750
Issue of capital	14,221	(14,221)	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(4,298)	-	(4,298)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	17,552	-	17,552
Profit on sale of treasury shares	-	-	-	-	-	-	10,218	-	-	10,218	-	-	10,218
Transfer from profit	-	-	13,533	-	-	-	-	-	(13,533)	-	-	-	-
Proposed bonus shares	-	16,355	-	-	-	-	-	-	(16,355)	(16,355)	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	(69,820)	(69,820)	-	69,820	-
Dividend paid	-	-	-	-	-	-	-	-	(63)	(63)	-	(55,386)	(55,449)
At 31 December 2007	**109,030**	**16,355**	**89,438**	**2,356**	**46,044**	**15,159**	**27,928**	**8,867**	**125,559**	**315,351**	**(19,932)**	**69,820**	**490,624**

The attached notes 1 to 31 form part of these financial statements.

Notes to the Financial Statements

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (the Bank) is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. Its registered office is at Mubarak Al Kabir Street, PO Box 3200, 13032 Safat, Kuwait. The financial statements for the year ended 31 December 2007 have been approved for issue by the Board of Directors on 14 January 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

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

The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of financial assets classified at fair value through income statement and "available for sale", all derivative contracts and land and buildings.

The financial statements have been presented in Kuwaiti Dinars rounded off to the nearest thousand. These financial statements are subject to the approval of the shareholders at the Annual General Meeting.

The accounting policies are consistent with those used in the previous year except that the Bank has adopted the following:

i) IFRS 7 Financial Instruments: Disclosures; and

ii) Amendments to International Accounting Standard (IAS 1) – Capital disclosures.

As a result of the above adoptions, certain additional disclosures have been made that will enable users to evaluate:

- o the significance of financial instruments for the Bank's financial position and performance;
- o the nature and extent of risks arising from financial instruments to which the Bank is exposed during the period and at the reporting date, and how the Bank manages those risks; and
- o the Bank's objectives, policies and processes for managing Capital.

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Bank:

IFRS 8 "Operating Segments"

The application of IFRS 8, which will be effective for the annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IAS 1 "Presentation of Financial Statements" (Revised)

The application of IAS 1 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of the information presented.

b. Financial instruments

Classification, recognition/de-recognition and measurement of financial instruments

Classification

In accordance with the revised IAS 39, the Bank classifies its financial assets as "at fair value through income statement", "loans and receivables" and "available for sale"; and its financial liabilities as "non-trading financial liabilities".

Financial assets "carried at fair value through income statement" are divided into two sub categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets which are not classified as above are classified as "available for sale", and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities, which are not held for trading, are classified as "non-trading financial liabilities".

Management determines the classification of these financial instruments at the time of acquisition.

Recognition/de-recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is derecognised where:

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

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

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in equity in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*
b. Financial instruments

Measurement

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through the income statement.

On subsequent re-measurement, financial assets classified as "carried at fair value through income statement" are carried at fair value with resultant unrealised gains or losses arising from changes in fair value included in the income statement. "Loans and receivables" are carried at amortised cost using the effective yield method less any provision for impairment. Those classified as "available for sale" are subsequently measured and carried at fair values. Unrealised gains and losses arising from changes in fair value of those classified as "available for sale" are taken to fair valuation reserve in equity.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments are measured at cost less impairment loss, if any. "Non-trading financial liabilities" are carried at amortised cost using the effective interest method.

When the "available for sale" asset is disposed of, or impaired, the related accumulated fair value adjustments previously recognised in equity are transferred to the income statement as gains or losses.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices or using the current market rate of interest for that instrument. Fair values for unquoted instruments are based on net asset values provided by the administrators of fund, or are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of unquoted financial instruments is determined by reference to a significant third party transaction, or to the market value of a similar investment, or the expected discounted cash flows, brokers' quotes, or other appropriate valuation models.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future cash flows at the current market interest rates for similar financial instruments.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Impairment and uncollectibility of financial assets

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

Impairment is determined as follows:

a) for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate; and for financial assets with variable interest rates, carried at amortised cost, discounted at the effective interest rate;

b) for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;

c) for financial assets carried at cost, impairment is the difference between the carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

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

In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates are effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral during the reporting period. The minimum 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 further directive from the Central Bank of Kuwait.

Financial assets are written off when there is no realistic prospect of recovery.

Offsetting

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

c. Derivative financial instruments and hedging

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments including forward and swaps in the foreign exchange and money markets. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the balance sheet.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. Any changes in the fair value of derivatives that are held for trading are taken directly to the income statement and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy are documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement. For cash flow hedges affecting future transactions that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in shareholders' equity are re-classified into the income statement in the same period or periods during which the financial asset or financial liability affects the income statement.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the hedge is amortized over the remaining term to maturity.

d. Collateral pending sale

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the income statement.

e. Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

f. Treasury shares

The cost of the Bank's own shares purchased, including directly attributable costs, is recognised as a change in equity. Gains or losses arising on sale are separately disclosed under equity and in accordance with the instructions of Central Bank of Kuwait, these amounts are not available for distribution. These shares are not entitled to any cash dividends.

g. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income and fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective yield method, unless collectibility is in doubt. Once a financial instrument categorised as 'loans and receivables' is impaired, interest is calculated based on expected future cash flows (excluding future credit losses that have not been incurred) used for the purpose of measuring the impairment.

Other fees receivable are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

h. Fiduciary assets

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

i. Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year end are translated into Kuwaiti Dinars at the rates of exchange ruling at the balance sheet date. Forward exchange contracts are valued at the forward rates ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement.

Translation gains and losses on non-monetary items such as equities classified as available for sale financial assets are included in the fair valuation reserve in equity, unless part of an effective hedging strategy.

j. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding 30 days.

k. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management uses judgements, and makes estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates is as follows:

Classification of financial instruments

Management has to decide on acquisition of a financial instrument whether it should be classified as carried at fair value through income statement, available for sale or as loans and advances. In making that judgement, the Bank considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the income statement or directly in equity.

Evidence of impairment in investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Estimation uncertainty

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

Impairment losses on loans and advances and investment in debt instruments

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

Valuation of unquoted equity investments

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

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

The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

3. INTEREST INCOME

	2007 KD 000's	2006 KD 000's
Treasury bonds, Central Bank of Kuwait Bonds, and other investments	**34,625**	24,314
Placements with banks	**33,517**	17,941
Loans and advances to banks and customers (refer note 5)	**247,163**	193,644
	315,305	235,899

4. INTEREST EXPENSE

	2007 KD 000's	2006 KD 000's
Call accounts	**4,257**	3,309
Savings accounts	**2,847**	2,892
Time deposits	**177,628**	108,492
Bank borrowings	**24,021**	12,665
	208,753	127,358

5. EFFECTIVE INTEREST RATE ADJUSTMENT AND LOANS WRITTEN DOWN

An amount of **KD11,309,000** has been charged to the income statement in the last quarter of the year. The charge represents an adjustment to a portfolio of loans that have had their terms modified during the year in accordance with Central Bank of Kuwait -Circular No. 2/202/BS,BSA,RS,RSA/2007 dated 13 February 2007 and has been computed based on revised estimates of future cash flows, discounted at original contracted rates of interest.

An amount of **KD8,391,000** has been charged to the income statement in the last quarter of the year. The charge represents a write down of the principal balance amounts of a portfolio of loans that have had their terms modified during the year in accordance with the Central Bank of Kuwait- Circular No. 2/202/BS,BSA,RS,RSA/2007 dated 13 February 2007.

6. NET FEES AND COMMISSION INCOME

	2007 KD 000's	2006 KD 000's
Total fees and commission income	**26,346**	28,700
Total fees and commission expense	**2,922**	2,623
Net fees and commission income	**23,424**	26,077

7. OTHER INCOME

	2007 KD 000's	2006 KD 000's
Subscription and custody fees	**769**	111
Customer portfolio management fee	**62**	110
Sundry income	**308**	158
	1,139	379

8. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is based on the weighted average number of shares outstanding during the year as follows:

	2007 KD 000's	2006 KD 000's
Profit for the year	**130,437**	105,883
	Shares	Shares
Weighted average number of Bank's issued and paid up shares	**1,090,305,377**	1,090,305,377
Less: weighted average number of treasury shares	**(22,393,437)**	(26,983,471)
	1,067,911,940	1,063,321,906
	Fils	Fils
Earnings per share	**122.142**	99.578

Earnings per share reported for the year ended 31 December 2006 was 114.514 fils before retroactive adjustment relating to the issue of bonus share at 15% of the paid up capital approved by the shareholders in the Annual General Meeting dated 3 March 2007.

The weighted average number of issued and paid up shares and treasury shares for 2006 have been adjusted for the bonus shares issued in 2007.

9. CASH AND SHORT TERM FUNDS

	2007 KD 000's	2006 KD 000's
Balances with the Central Bank of Kuwait	**57,091**	435,062
Cash on hand and in current accounts with other banks	**85,978**	49,722
Deposits with banks and other financial institutions maturing within one month	**441,197**	223,504
	584,266	708,288

10. TREASURY BONDS

The Central Bank of Kuwait on behalf of the Ministry of Finance issues these financial instruments.

	2007 KD 000's	2006 KD 000's
Maturing within one year	**338,620**	203,254
Maturing after one year	**74,287**	112,259
	412,907	315,513

11. CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait. They mature within a period not exceeding one year.

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent monies paid to banks and customers. The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2007

Loans and advances to customers	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	**773,524**	-	-	-	-	**773,524**
Financial	**386,155**	**5,894**	**24**	-	-	**392,073**
Trade and commerce	**221,035**	**589**	-	-	-	**221,624**
Crude oil and gas	**1,755**	**390**	-	-	-	**2,145**
Construction	**401,817**	**51,570**	-	**4,644**	-	**458,031**
Government	-	**57,707**	-	-	**1,318**	**59,025**
Manufacturing	**246,975**	**16,035**	**240**	-	-	**263,250**
Real estate	**696,269**	-	-	-	-	**696,269**
Others	**337,037**	**71,600**	**42,730**	-	**38,417**	**489,784**
	3,064,567	**203,785**	**42,994**	**4,644**	**39,735**	**3,355,725**
Less: Provision for impairment						**(86,929)**
						3,268,796
Loans and advances to banks	**7,092**	**22,711**	**8,168**	**22**	-	**37,993**

At 31 December 2006

Personal	747,264	-	-	-	-	747,264
Financial	318,585	6,087	-	-	-	324,672
Trade and commerce	260,975	818	-	-	-	261,793
Crude oil and gas	13,856	413	-	-	-	14,269
Construction	379,932	49,024	-	-	-	428,956
Government	-	47,174	-	-	29,144	76,318
Manufacturing	67,272	17,068	-	-	-	84,340
Real estate	501,471	-	-	-	-	501,471
Others	154,026	3,231	14,480	-	-	171,737
	2,443,381	123,815	14,480	-	29,144	2,610,820
Less: Provision for impairment						(72,517)
						2,538,303
Loans and advances to banks	6,361	20,963	20,747	-	-	48,071

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS *(continued)*

	2007			2006		
		KD 000's			KD 000's	
Movement in provisions for impairment	**Specific**	**General**	**Total**	Specific	General	Total
At 1 January	**23,710**	**48,807**	**72,517**	19,469	41,531	61,000
Exchange adjustments	**(26)**	**-**	**(26)**	12	-	12
Recoveries	**862**	**-**	**862**	1,039	-	1,039
Amounts written off	**(192)**	**-**	**(192)**	(67)	-	(67)
Amount to be ceded to Central Bank of Kuwait	**(392)**	**-**	**(392)**	-	-	-
Income statement	**8,605**	**5,555**	**14,160**	3,257	7,276	10,533
At 31 December	**32,567**	**54,362**	**86,929**	23,710	48,807	72,517

The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a minimum general provision of 1% on all credit facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, has been made.

Movement in provisions for impairment for loans and advances by class is as follows:

	2007 KD 000's			2006 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**51,284**	**21,233**	**72,517**	46,076	14,924	61,000
Exchange adjustments	**(26)**	**-**	**(26)**	12	-	12
Recoveries	**-**	**862**	**862**	-	1,039	1,039
Amounts written off	**(39)**	**(153)**	**(192)**	(4)	(63)	(67)
Amount to be ceded to Central Bank of Kuwait	**(392)**	**-**	**(392)**	-	-	-
Income statement	**6,517**	**7,643**	**14,160**	5,200	5,333	10,533
At 31 December	**57,344**	**29,585**	**86,929**	51,284	21,233	72,517
Specific provision	**15,282**	**17,285**	**32,567**	14,704	9,006	23,710
General provision	**42,062**	**12,300**	**54,362**	36,580	12,227	48,807
	57,344	**29,585**	**86,929**	51,284	21,233	72,517

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS *(continued)*

The provision charge for the year on non-cash facilities is **KD1,331,000** (2006: KD4,866,000), net of release of specific provisions of **KD Nil** (2006: KD5,000). The available provision on non-cash facilities of **KD20,947,000** (2006: KD19,616,000) is included in other liabilities (Note 19).

As at 31 December 2007, non-performing loans and advances amounted to **KD56,332,000** (2006: KD42,950,000) split between facilities granted pre-invasion and post-liberation as follows:

	2007		2006	
	Loans & Advances KD 000's	**Specific Provisions KD 000's**	Loans & advances KD 000's	Specific Provisions KD 000's
Pre-invasion	**12,511**	**12,511**	12,911	12,911
Post-liberation	**43,821**	**20,056**	30,039	10,799
Total	**56,332**	**32,567**	42,950	23,710

In accordance with Decree 32/1992, when the pre-invasion provisions are no longer required, they must be ceded to the Central Bank of Kuwait.

13. INVESTMENTS AVAILABLE FOR SALE

	2007 KD 000's	2006 KD 000's
Debt securities		
Quoted	-	2,255
Unquoted	-	716
	-	2,971
Equity securities		
Quoted	**2,291**	2,363
Unquoted	**240,588**	154,050
	242,879	156,413
Total	**242,879**	159,384

During the year, the Bank recognised **KD28,248,000** (2006: KD11,805,000) in equity as the net gain arising from changes in fair value of investment securities and re-cycled a profit of **KD38,313,000** (2006: KD9,960,000) to the income statement arising from the disposal of "investments available for sale".

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and as a result investments with a carrying amount of **KD21,741,000** (2006: KD15,316,000) are carried at cost. Certain investments amounting to **KD1,035,000** (2006: KD16,247,000) are carried at cost as the acquisition price of these investments is determined to be the fair value as these securities are recently acquired.

14. OTHER ASSETS

	2007 KD 000's	2006 KD 000's
Accrued interest receivable	**21,790**	17,794
Sundry debtors and others	**1,343**	4,267
	23,133	22,061

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2007 KD 000's	2006 KD 000's
Due to banks		
Current accounts and demand deposits	**11,354**	11,110
Time deposits	**290,292**	217,919
	301,646	229,029
Deposits from financial institutions		
Current accounts and demand deposits	**83,772**	78,043
Time deposits	**790,693**	294,473
	874,465	372,516

16. CUSTOMER DEPOSITS

	2007 KD 000's	2006 KD 000's
Current accounts	**434,304**	358,843
Savings accounts	**209,930**	204,387
Time deposits	**2,547,095**	2,275,550
	3,191,329	2,838,780

17. FLOATING RATE NOTES

On 22 October 2003, the Bank issued five year floating rate notes (due October 2008), with a principal amount of USD 200 million at an issue price of 100%. The notes bear interest at the rate of 0.65% per annum above the London interbank offered rate (LIBOR) for three month US dollar deposits, payable quarterly in arrears. The notes are in bearer form in the denomination of USD 100,000 each. They are listed on the Luxembourg Stock Exchange and are redeemable at par on or before 22 October 2008. The fair value of the floating rate notes as at 31 December 2007 is **USD 200,040,000** (2006: USD 201,000,000), equivalent to **KD54,610,920** (2006: KD58,117,000).

18. SUBORDINATED LOANS

As at 31 December 2007, the Bank has subordinated borrowings of USD 300 million (equivalent to **KD81,900,000**). The borrowings comprise of three 10 year subordinated loans: USD 50 million due in June 2014, USD 100 million due in December 2014, and USD 150 million due in October 2016.

The borrowings were obtained from financial institutions outside of Kuwait and qualify as Tier 2 subordinated loan capital. The loans are repayable at maturity, with an option for early pre-payment with the prior approval of Central Bank of Kuwait, and interest is variable and related to interbank offered rates.

19. OTHER LIABILITIES

	2007 KD 000's	2006 KD 000's
Interest payable	**43,120**	32,103
Deferred income	**2,268**	8,195
Provisions for non-cash facilities	**20,947**	19,616
Contribution to Kuwait Foundation for the Advancement of Sciences	**1,353**	1,098
Staff related provisions	**4,162**	3,225
National Labour Support Tax	**3,348**	2,716
Zakat	**83**	-
Other	**13,064**	9,252
	88,345	76,205

20. SHARE CAPITAL

	2007 KD 000's	2006 KD 000's
Authorised, issued and fully paid ordinary shares	**109,030**	94,809

The number of authorised, issued and fully paid ordinary shares of KD0.100 each as at 31 December 2007 is **1,090,305,377** (2006: 948,091,631). Bonus share of 15% on the outstanding shares proposed as at 31 December 2006 was approved at the 2006 Annual General Meeting and was issued in 2007 following that approval (Note 23).

21. RESERVES

In accordance with the Law of Commercial Companies and the Bank's Articles of Association, 10% of the Bank's operating profit for the year is transferred to statutory reserve.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable with approval of the Annual General Meeting. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The general reserve represents the surplus general provision on credit facilities arising on implementation of Central Bank of Kuwait instructions issued on 18 December 1996 as well as additional instructions issued on 1 June 1999, and dividends distributed on treasury shares up until the end of 1997.

The property revaluation reserve represents the surplus of market value over carrying value of the premises and equipment owned by the Bank. The balance in this reserve is taken directly to retained earnings when the underlying assets are disposed of. The balances in the share premium account and treasury share reserve cannot be distributed.

22. TREASURY SHARES

	2007	2006
Number of treasury shares	**16,157,598**	24,994,216
Percentage of treasury shares	**1.48%**	2.64%
Cost of treasury shares (KD 000's)	**19,932**	33,186
Market value of treasury shares (KD 000's)	**27,629**	42,990

23. PROPOSED DIVIDEND, BONUS SHARES AND DIRECTORS' REMUNERATION

At 31 December 2007, the following dividend has been proposed and will be submitted for formal approval at the Annual General Meeting: cash dividend of KD0.065 per share (totalling KD69,820,000) payable to the shareholders registered in the Bank's records as of the date of the Annual General Meeting, and bonus shares of 15% on the outstanding shares as at 31 December 2007.

A cash dividend of KD0.060 per share (totalling KD55,386,000) and bonus shares of 15% on the outstanding shares proposed as of 31 December 2006, was approved at the 2006 Annual General Meeting and was paid in 2007 following that approval.

Directors' remuneration of **KD108,000** (2006: KD108,000) is within the amount permissible under local regulations and is subject to approval of the shareholders at the Annual General Meeting.

24. PROVISIONS TO BE RECOVERED/CEDED TO THE CENTRAL BANK OF KUWAIT

As at 31 December 2007, provisions to be ceded to the Central Bank of Kuwait is **KD392,000** (2006: KD Nil). The identification of provisions no longer required was made in the same manner as adopted at the end of 2006 and in accordance with Central Bank of Kuwait instructions.

25. RELATED PARTY TRANSACTIONS

Certain related parties (directors and officers of the Bank, their families and companies of which they are the principal owners) were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than a normal amount of risk.

25. RELATED PARTY TRANSACTIONS *(continued)*

The transaction and balances included in the balance sheet are as follows:

	No. of Board members and executive management members	No. of related parties	Value KD 000's
2007			
Board members			
Loans	**4**	**2**	**46,749**
Deposits	**5**	**-**	**807**
Guarantees issued	**2**	**2**	**2,190**
Executive management			
Loans	**9**	**-**	**3,589**
Deposits	**2**	**-**	**14**
Guarantees issued	**2**	**-**	**2**
2006			
Board members			
Loans	4	1	10,229
Deposits	8	-	321
Guarantees issued	3	1	148
Executive management			
Loans	8	-	2,794
Deposits	1	-	4
Guarantees issued	2	-	2

The loans issued to directors and key management personnel are repayable within 3 years and have interest rates of **6.25% to 8.25%** (2006: 6% to 8%). The loans advanced to directors during the year are collateralised. The fair value of these collaterals as of 31 December 2007 was **KD94,675,000** (2006: KD17,470,000).

The transactions included in the income statement are as follows:

	2007 KD 000's	2006 KD 000's
Directors and key management personnel:		
Interest income earned	**3,807**	865
Interest expense on deposits	**23**	14
Key management compensation:		
Salaries and other short-term benefits	**2,039**	1,629
End of service/termination benefits	**120**	70

26. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises principally from lending, trade finance and treasury activities.

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

A brief description of the risk management framework is given below:

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimised by monitoring credit exposures, limiting transactions with individual counterparties and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer, industry segment and cross-border limits are used to diversify lending and avoid undue concentrations. Credit exposure relating to trading activities is controlled by the use of strict counterparty limits, master netting agreements and collateral arrangements (where appropriate), and by limiting the duration of exposures.

An independent credit control unit, reporting to Deputy General Manager, Credit Control, is responsible for providing high-level centralised management of credit risk. The responsibilities of this team include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the

26. FINANCIAL INSTRUMENTS *(continued)*
A. CREDIT RISK

maximum exposure to individual customers, customer groups and other risk concentrations; undertaking independent and objective 'pre-fact' reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the bank's facility rating process in order to categorise exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

The Bank has detailed credit approval guidelines for each of its individual retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment and minimum period of pre-existing banking relationship with the Bank. Applicants must also provide a credit reference from their employer, specifying salary and length of service, and a commitment from the employer to pay their salary directly to their saving account with the Bank. In accordance with CBK regulations, the applicant's total monthly debt repayment to income ratio must not exceed 50% of their monthly income.

The Bank has four credit committees: the Executive Credit Committee ('ECC'), the Management Sub-Committee ('MSC'), the Retail Credit Committee ('RCC') and the Classification and Provisions Committee ('CPC'). The Board of Directors has delegated all authority for credit decisions to the ECC within the Central Bank of Kuwait guidelines. The responsibilities of the ECC are to review and approve any amendments to the Bank's credit policies and risk strategies for submission to the Board of Directors for final approval and to review, approve, reject, modify or conditionally approve credit proposals in excess of the delegated authority of the MSC and in compliance with the credit policies of the Bank.

The RCC meets regularly and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant.

Credit applications for corporate and international lending are reviewed by the MSC and typically include the following information: customer profile and summary of limits and amounts outstanding; pre-fact credit review prepared by the Bank's independent credit control unit; risk rating, credit analysis and customer profitability analysis; financial and cash flow analysis; details of purpose of loan, collateral, repayment source and details of guarantors, if applicable; and audited financial statements and/or personal net worth statements, as appropriate.

The MSC has the authority to approve, reject or modify credit applications submitted to it within its delegated authority levels. The MSC meets twice weekly. Applications that fall outside the delegated authority limits of the MSC are referred to the ECC, which meets weekly.

The Bank has legal lending limits, country limits and industry sector limits that must be adhered to when lending approval is being considered in respect of relevant applications or participations.

The Bank has a detailed credit policy defining its policy on acceptable country credit risk exposure, and evaluating and controlling cross border risk. The Bank uses a ranking system to differentiate between the quality of various sovereign risks.

There are five categories of sovereign risk employed by the Bank ranging from 'Very Low Risk' countries (i.e. major OECD and AAA rated countries) through to 'Very High Risk' countries (i.e. BB/B rated countries). The individual country limits are approved and kept under review by the ECC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's international banking division and recommended by the MSC.

The international banking division reviews the Bank's overall cross border limits and exposure risk ratings at least every six months. The review focuses on the overall spread of cross border risk and recommendations to alter individual country risk limits are made where necessary.

Geographical and industry sector concentrations of assets, liabilities and off-balance-sheet items are as follows:

	2007			2006		
	Assets KD 000's	***Liabilities KD 000's***	***Off-balance-sheet items KD 000's***	Assets KD 000's	Liabilities KD 000's	Off-balance-sheet items KD 000's
Geographic region:						
Domestic (Kuwait)	**3,920,681**	**3,507,941**	**1,488,180**	3,375,080	3,114,221	1,176,991
Other Middle East	**733,317**	**639,788**	**751,135**	283,126	326,992	314,123
Europe	**81,669**	**297,389**	**410,502**	180,972	201,236	312,060
USA and Canada	**3,127**	**6,418**	**14,468**	12,620	5,059	11,098
Asia Pacific	**4,944**	**19,467**	**179,011**	24,795	921	124,595
Rest of world	**295,138**	**121,282**	**1,613**	136,716	12,671	3,062
	5,038,876	**4,592,285**	**2,844,909**	4,013,309	3,661,100	1,941,929
Industry sector:						
Personal	**724,680**	**1,850,189**	**42,016**	743,197	1,980,329	7,136
Financial	**1,240,458**	**1,407,728**	**653,841**	796,710	775,883	634,713
Trade and Commerce	**219,274**	**25,502**	**198,335**	263,705	27,839	270,680
Crude Oil and Gas	**1,737**	**152,665**	**843**	13,625	93,173	2,240
Construction	**451,046**	**17,618**	**465,830**	424,320	22,019	419,521
Government	**747,666**	**503,834**	**233,620**	945,790	267,533	65,042
Other	**700,392**	**359,870**	**831,883**	240,618	315,773	355,405
Manufacturing	**264,365**	**268,406**	**246,811**	84,743	172,640	145,816
Real Estate	**689,258**	**6,473**	**171,730**	500,601	5,911	41,376
	5,038,876	**4,592,285**	**2,844,909**	4,013,309	3,661,100	1,941,929

26. FINANCIAL INSTRUMENTS *(continued)*
A. CREDIT RISK

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

BY CLASS OF FINANCIAL ASSETS	**Gross maximum exposure 2007 KD 000's**	Gross maximum exposure 2006 KD 000's
Cash and short term funds (excluding cash on hand)	**563,502**	680,938
Treasury bonds	**412,907**	315,513
Central Bank of Kuwait bonds	**175,925**	119,165
Deposits with banks and other financial institutions	**313,741**	129,874
Loans and advances to banks	**37,993**	48,071
Loans and advances to customers:		
Corporate lending	**2,655,173**	1,923,326
Consumer lending	**613,623**	614,977
Investments available for sale	**242,879**	159,384
Other assets	**23,133**	22,061
Total	**5,038,876**	4,013,309
Contingent liabilities	**2,759,095**	1,889,621
Commitments	**85,814**	52,307
Total	**2,844,909**	1,941,928
Total credit risk exposure	**7,883,785**	5,955,237

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan facility exposures outstanding as a percentage of total credit risk exposures as at 31 December 2007 is 20% (2006: 20%).

Collateral and other credit enhancements

The Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimise credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are secured by collateral, consisting primarily of: equities listed on the Kuwait Stock Exchange; real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favour; and direct, explicit, irrevocable and unconditional bank guarantees.

The Bank takes adequate steps to ensure that there is no excessive concentration of any particular asset class within the collaterals.

Internal credit quality rating

The Bank uses Moody's KMV risk rating software for rating its borrowers having financial statements. Clients having no financial statements continue to be rated using internally developed score-card models.

Under the Moody's rating framework, all clients are rated on a scale from 1 to 10 in the descending order of credit quality. Moody's Risk rating software comprises of two components - Moody's Financial Analyst (MFA) and Moody's Risk Advisor (MRA). MFA is used for analysing financial data of individual borrowers and MRA is used to analyse the relative credit worthiness of borrowers.

The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of the rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessment of the operations, liquidity and capital structure are also included in the assessment.

The Bank categorizes performing credit exposures into the following:

Credit Quality Grade (CQG)	Internal Rating
CQG – 1	1 to 2.9
CQG – 2	3 to 4.9
CQG – 3	5 to 6.9
CQG – 4	7 to 8.9
CQG – 5	9 to 10

	Neither past due nor impaired					
2007	**CQG1 KD 000's**	**CQG2 KD 000's**	**CQG3 KD 000's**	**CQG4 KD 000's**	**CQG5 KD000's**	**Total KD 000's**
Loans to banks	**315**	**7,541**	**22,284**	**7,853**	**-**	**37,993**
Loans and advances:						
- Corporate lending	**398,665**	**1,220,226**	**418,381**	**240,066**	**21,142**	**2,298,480**
- Consumer lending	**542,618**	**-**	**-**	**-**	**-**	**542,618**
Effective interest rate adjustment (Note 5)	**(8,753)**	**-**	**-**	**-**	**-**	**(8,753)**
	932,845	**1,227,767**	**440,665**	**247,919**	**21,142**	**2,870,338**
2006						
Loans to banks	-	6,361	20,963	20,747	-	48,071
Loans and advances:						
- Corporate lending	355,962	649,869	566,830	109,263	19,986	1,701,910
- Consumer lending	592,438	-	-	-	-	592,438
	948,400	656,230	587,793	130,010	19,986	2,342,419

26. FINANCIAL INSTRUMENTS *(continued)*
A. CREDIT RISK

Aging analysis of past due but not impaired loans per class of financial assets:

	2007			
	Past due up to 30 days KD 000's	**Past due 30 to 60 days KD 000's**	**Past due 60 to 90 days KD 000's**	**Total KD 000's**
Loans and advances to customers:				
- Corporate lending	**322,843**	**18,052**	**35,800**	**376,695**
- Consumer lending	**76,085**	**11,811**	**4,370**	**92,266**
Effective interest rate adjustment (Note 5)	**(1,486)**	**(283)**	**(144)**	**(1,913)**
Loans and advances to banks	**-**	**-**	**-**	**-**
Total	**397,442**	**29,580**	**40,026**	**467,048**
Fair value of collateral	**1,665,149**	**109,529**	**36,389**	**1,811,067**
	2006			
Loans and advances to customers:				
- Corporate lending	216,033	16,034	4,470	236,537
- Consumer lending	26,705	6,209	4,072	36,986
Loans and advances to banks	6,361	-	-	6,361
Total	249,099	22,243	8,542	279,884
Fair value of collateral	1,119,297	113,654	17,446	1,250,397

Financial assets by class individually impaired

	2007		
	Gross exposure KD 000's	***Impairment KD 000's***	***Fair value of collateral KD 000's***
Loans and advances:			
- Corporate lending	**31,636**	**15,282**	**27,391**
- Consumer lending	**25,339**	**17,285**	**376**
Effective interest rate adjustment (Note 5)	**(643)**	**-**	**-**
	56,332	**32,567**	**27,767**
	2006		
Loans and advances:			
- Corporate lending	30,284	14,704	25,062
- Consumer lending	12,666	9,006	208
	42,950	23,710	25,270

Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. These instruments are disclosed in Note 28.

Financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers.

Collateral security is not usually obtained for credit risk exposures on these instruments. These instruments are disclosed in Note 30.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is the impact on fair value of investments available for sale for the effects of assumed changes in interest rates.

Based on the Bank's financial assets and liabilities held at the balance sheet date, a change in basis points movements with all other variables held constant, the Bank's profit and equity would move as follows:

26. FINANCIAL INSTRUMENTS *(continued)*
B. INTEREST RATE RISK

		2007		2006	
Currency	Movement in Basis points	***Profit KD 000's***	***Equity KD 000's***	*Profit KD 000's*	*Equity KD 000's*
KWD	+25	**3,072**	**-**	2,360	-
USD	+25	**(911)**	**-**	(213)	(2)
EUR	+25	**(87)**	**-**	7	-
GBP	+25	**(141)**	**-**	(30)	-

		2007		2006	
Currency	Movement in Basis points	***Profit KD 000's***	***Equity KD 000's***	*Profit KD 000's*	*Equity KD 000's*
KWD	-25	**(2,866)**	**-**	(2,197)	-
USD	-25	**934**	**-**	227	2
EUR	-25	**89**	**-**	(7)	-
GBP	-25	**141**	**-**	30	-

A majority of the Bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

C. CURRENCY RISK

Currency risk is the risk that the fair or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

Based on the Bank's financial assets and liabilities held at the balance sheet date, a change in currency movements with all other variables held constant, the Bank's profit and equity would move as follows:

	2007			2006		
Currency	**Change in currency rate in %**	**Impact on profit %**	**Impact on equity %**	Change in currency rate in %	Impact on profit %	Impact on equity %
USD	+5	**(7)**	**2**	+5	(6)	2
EUR	+5	**(1)**	**-**	+5	-	-
GBP	+5	**-**	**-**	+5	-	-
Others	+5	**-**	**-**	+5	-	-

D. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of a bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the treasury group manages the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring balance sheet liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional market or geopolitical events.

Liquidity risk is further minimised by adherence to the strict CBK liquidity requirements, namely: maturity ladder mismatch limits for specific time periods: 10% for 7 days or less; 20% for 1 month or less; 30% for 3 months or less; 40% for 6 months or less; and the requirement to hold 20% of KDcustomer deposits in Kuwait Government treasury bills and bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK.

26. FINANCIAL INSTRUMENTS *(continued)*
D. LIQUIDITY RISK

The maturity profile of the assets and liabilities at the year end based on contractual repayment arrangements is as follows:

At 31 December 2007

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and short term funds	584,266	-	-	-	-	-	584,266
Treasury bonds	7,400	57,807	106,912	166,501	28,027	46,260	412,907
Central Bank of Kuwait bonds	14,900	161,025	-	-	-	-	175,925
Deposits with banks and other financial institutions	-	210,749	75,692	27,300	-	-	313,741
Loans and advances to banks	17,283	18,021	2,689	-	-	-	37,993
Loans and advances to customers	633,754	432,143	535,236	414,713	312,215	940,735	3,268,796
Investments available for sale	-	-	-	-	-	242,879	242,879
Other assets	23,133	-	-	-	-	-	23,133
Premises and equipment	-	-	-	-	-	23,269	23,269
Total assets	1,280,736	879,745	720,529	608,514	340,242	1,253,143	5,082,909
Liabilities and equity:							
Due to banks	169,024	58,247	74,375	-	-	-	301,646
Deposits from financial institutions	285,808	424,159	69,468	95,030	-	-	874,465
Customer deposits	1,991,775	499,555	436,434	256,951	6,589	25	3,191,329
Floating rate notes	-	-	-	54,600	-	-	54,600
Subordinated loans	-	-	-	-	-	81,900	81,900
Other liabilities	-	48,012	7,325	33,008	-	-	88,345
Equity	-	69,820	-	-	-	420,804	490,624
Total liabilities	2,446,607	1,009,793	587,602	439,589	6,589	502,729	5,082,909
Net liquidity gap	(1,165,871)	(220,048)	132,927	168,925	333,653	750,414	-

At 31 December 2006

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and short term funds	708,288	-	-	-	-	-	708,288
Treasury bonds	50,000	41,906	51,154	60,194	65,999	46,260	315,513
Central Bank of Kuwait bonds	39,724	79,441	-	-	-	-	119,165
Deposits with banks and other financial institutions	-	80,959	20,000	28,915	-	-	129,874
Loans and advances to banks	-	2,891	5,712	13,590	18,794	7,084	48,071
Loans and advances to customers	267,147	334,514	499,218	272,577	338,040	826,807	2,538,303
Investments available for sale	-	716	-	2,255	-	156,413	159,384
Other assets	22,061	-	-	-	-	-	22,061
Premises and equipment	-	-	-	-	-	19,292	19,292
Total assets	1,087,220	540,427	576,084	377,531	422,833	1,055,856	4,059,951
Liabilities and equity:							
Due to banks	195,628	18,529	14,872	-	-	-	229,029
Deposits from financial institutions	213,126	108,952	29,104	21,334	-	-	372,516
Customer deposits	1,553,474	652,413	349,720	224,316	58,475	382	2,838,780
Floating rate notes	-	-	-	-	57,828	-	57,828
Subordinated loans	-	-	-	-	-	86,742	86,742
Other liabilities	-	36,025	10,440	29,740	-	-	76,205
Equity	-	55,386	-	-	-	343,465	398,851
Total liabilities	1,962,228	871,305	404,136	275,390	116,303	430,589	4,059,951
Net liquidity gap	(875,008)	(330,878)	171,948	102,141	306,530	625,267	-

26. FINANCIAL INSTRUMENTS *(continued)*

D. LIQUIDITY RISK

The table below summarises the maturity profile of the Bank's financial liabilities and contingent liabilities and commitments at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2007

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	**169,376**	**58,816**	**75,755**	**-**	**-**	**303,947**
Deposits from financial institutions	**286,173**	**428,579**	**171,131**	**-**	**-**	**885,883**
Customer deposits	**1,994,746**	**504,576**	**717,740**	**7,120**	**-**	**3,224,182**
Floating rate notes	**844**	**-**	**57,132**	**-**	**-**	**57,976**
Subordinated loans	**-**	**1,033**	**3,980**	**20,054**	**95,768**	**120,835**
Other liabilities	**-**	**48,012**	**7,325**	**33,008**	**-**	**88,345**
	2,451,139	**1,041,016**	**1,033,063**	**60,182**	**95,768**	**4,681,168**

At 31 December 2006

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	196,006	18,632	15,168	-	-	229,806
Deposits from financial institutions	213,615	109,966	52,340	-	-	375,921
Customer deposits	1,555,977	658,784	595,002	64,696	-	2,874,459
Floating rate notes	881	-	2,594	61,342	-	64,817
Subordinated loans	-	1,094	4,215	21,239	106,740	133,288
Other liabilities	-	36,025	10,440	29,740	-	76,205
	1,966,479	824,501	679,759	177,017	106,740	3,754,496

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

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
At 31 December 2007						
Contingent liabilities	**288,888**	**317,543**	**768,081**	**415,173**	**20,171**	**1,809,856**
Commitments	**8,563**	**24,115**	**52,634**	**502**	**-**	**85,814**
	297,451	**341,658**	**820,715**	**415,675**	**20,171**	**1,895,670**
At 31 December 2006						
Contingent liabilities	255,979	302,902	481,575	291,604	24,952	1,357,012
Commitments	1,819	7,837	42,485	167	-	52,308
	257,798	310,739	524,060	291,771	24,952	1,409,320

E. OPERATIONAL RISK

Operational risk arises from a failure to control properly all aspects of documentation, processing, settlement of, and accounting for, transactions and, more widely, all the hazards to which a bank is exposed as a result of being in business and doing business. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed through the Risk Management Department. This department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

The operational risks are managed through the Risk Management Department in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

Majority of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities whose performance cannot necessarily be measured with relation to movement in any specific equity index.

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, the interest bearing financial liabilities have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fair values of interest bearing financial assets and liabilities not represented on the Bank's balance sheet at fair values have been estimated using prevailing interest rates for debts with similar credit risk and residual maturity. The carrying value of such financial instruments generally approximates their fair values.

As explained in note 13, included under investment available for sale are unquoted equity investments with a carrying value of **KD21,741,000** (2006: KD15,316,000) for which fair value cannot be reliably determined.

28. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and therefore form part of the overall risk of the Bank.

The total outstanding contingent liabilities and commitments are as follows:

	2007 KD 000's	2006 KD 000's
Guarantees	**1,064,863**	786,197
Letters of credit	**744,993**	570,815
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	**85,312**	52,141
Original term to maturity of more than one year	**502**	167
	85,814	52,308
	1,895,670	1,409,320

29. SEGMENTAL ANALYSIS

a. By Business Unit

Treasury & International

Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Domestic Banking

Principally handling individual customer deposits and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and handling loans and other credit facilities, deposits and current accounts for corporate and institutional customers.

29. SEGMENTAL ANALYSIS *(continued)*
a. By Business Unit

At 31 December 2007

	Treasury & International KD 000's	Domestic Banking KD 000's	Total KD 000's
Income Statement:			
Interest income from external sources	**85,481**	**229,824**	**315,305**
Profit for the year	**19,115**	**111,322**	**130,437**
Balance Sheet:			
Assets	**1,679,842**	**3,403,067**	**5,082,909**
Liabilities:			
Deposits, floating rate notes and subordinated loans	**1,727,884**	**2,776,056**	**4,503,940**
Other liabilities	**26,501**	**61,844**	**88,345**
Central treasury	**(565,167)**	**565,167**	**-**
	1,189,218	**3,403,067**	**4,592,285**
Capital expenditure	**23**	**2,747**	**2,770**
Depreciation	**10**	**2,161**	**2,171**

At 31 December 2006

	Treasury & International KD 000's	Domestic Banking KD 000's	Total KD 000's
Income Statement:			
Interest income from external sources	57,045	178,854	235,899
Profit for the year	7,423	98,460	105,883
Balance Sheet:			
Assets	1,467,726	2,592,225	4,059,951
Liabilities:			
Deposits, floating rate notes and subordinated loans	1,188,586	2,396,309	3,584,895
Other liabilities	14,965	61,240	76,205
Central treasury	(134,676)	134,676	-
	1,068,875	2,592,225	3,661,100
Capital expenditure	41	2,890	2,931
Depreciation	4	1,679	1,683

b. By Geographical Area

All significant segment revenue from external customers is derived from customers based in Kuwait. Geographic segment information relating to location of assets is given in note 26 A.

30. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

30. DERIVATIVES *(continued)*

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

At 31 December 2007

				Notional amounts by term to maturity		
Derivatives instruments held as:	**Positive fair value KD 000's**	**Negative fair value KD 000's**	**Notional amount Total KD 000's**	**Within 3 months KD 000's**	**3-12 months KD 000's**	**Over 1 year KD 000's**
Trading (and non qualifying hedges)						
Interest rate swaps	**312**	**(107)**	**17,436**	**-**	**-**	**17,436**
Forward foreign exchange contracts	**25**	**(2,363)**	**483,254**	**346,151**	**137,103**	**-**
Credit default swaps	**-**	**(1,602)**	**448,549**	**-**	**17,745**	**430,804**
	337	**(4,072)**	**949,239**	**346,151**	**154,848**	**448,240**

At 31 December 2006

Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Interest rate swaps	110	(90)	58,423	-	11,382	47,041
Forward foreign exchange contracts	562	(1)	396,422	329,980	66,442	-
Credit default swaps	5	(234)	77,764	4,337	2,891	70,536
	677	(325)	532,609	334,317	80,715	117,577

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies. For credit default swaps, fee is earned based on the amount of credit risk swapped.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

31. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

The disclosures relating to the Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, and the disclosures required by the amendments of IAS 1 – Capital disclosures, are included under the 'Capital Management and Allocation' section of the annual report.