

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



**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD
FROM 1 JANUARY 2009 TO 30 JUNE 2009
(UNAUDITED)**

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



CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The Board of Directors
Boubyan Bank KSC
State of Kuwait

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Boubyan Bank KSC (“the Bank”) and its subsidiaries (together referred to as “the Group”) as of 30 June 2009, and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with the basis of preparation set out in Note 2. Our responsibility is to express a conclusion on this interim financial information based on our review.


Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.

Furthermore, based on our review, the interim financial information is in agreement with the accounting records. We further report that nothing has come to our attention indicating any contravention during the six month period ended 30 June 2009, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Bank's memorandum and articles of association, or 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, which might have materially affected the Group's activities or its financial position.



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Kuwait: 13 July 2009

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



CONDENSED CONSOLIDATED INTERIM STATEMENT
OF INCOME (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--|-------|----------------------------|----------------|--------------------------|----------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | KD'000 | KD'000 | KD'000 | KD'000 |
| Income | | | | | |
| Murabaha and other Islamic financing income | | 8,678 | 9,044 | 18,428 | 16,870 |
| Investment income | 3 | 3,343 | 9,169 | 5,603 | 13,406 |
| Fees and commissions income | 4 | 1,248 | 899 | 2,164 | 2,701 |
| Share of results of associates | | 455 | 37 | 635 | 316 |
| Net foreign exchange gain | | 752 | 90 | 705 | 452 |
| | | <u>14,476</u> | <u>19,239</u> | <u>27,535</u> | <u>33,745</u> |
| Expenses | | | | | |
| Staff costs | | (2,552) | (3,512) | (5,438) | (5,327) |
| General and administrative expenses | | (1,817) | (1,242) | (4,087) | (2,450) |
| Depreciation and amortization | | (375) | (340) | (743) | (626) |
| | | <u>(4,744)</u> | <u>(5,094)</u> | <u>(10,268)</u> | <u>(8,403)</u> |
| Profit before Murabaha cost, provision for impairment, investment loss and distribution to depositors | | | | | |
| | | 9,732 | 14,145 | 17,267 | 25,342 |
| Murabaha cost | | (320) | (908) | (863) | (1,878) |
| Investment loss | 3 | (1,976) | - | (13,563) | (948) |
| Provision for impairment | 5 | (4,550) | (749) | (7,947) | (1,505) |
| Profit / (Loss) before distribution to depositors | | | | | |
| | | 2,886 | 12,488 | (5,106) | 21,011 |
| Distribution to depositors | | (2,963) | (3,487) | (6,670) | (6,710) |
| (Loss) / profit after distribution to depositors | | | | | |
| | | (77) | 9,001 | (11,776) | 14,301 |
| Provision for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS") | | - | (80) | - | (128) |
| Provision for National Labour Support Tax ("NLST") | | - | (224) | - | (356) |
| Provision for Zakat | | - | (89) | - | (142) |
| Net (Loss) / profit for the period | | <u>(77)</u> | <u>8,608</u> | <u>(11,776)</u> | <u>13,675</u> |
| Attributable to: | | | | | |
| Equity holders of the Bank | | (10) | 8,554 | (11,731) | 13,600 |
| Minority interest | | (67) | 54 | (45) | 75 |
| Net (loss) / profit for the period | | <u>(77)</u> | <u>8,608</u> | <u>(11,776)</u> | <u>13,675</u> |
| (Loss) / earning per share attributable to the equity holders of the Bank (fils) | 6 | <u>(0.01)</u> | <u>7.34</u> | <u>(10.07)</u> | <u>11.67</u> |

The notes from 1 to 18 form an integral part of this condensed consolidated interim financial information.

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



CONDENSED CONSOLIDATED INTERIM STATEMENT
OF COMPREHENSIVE INCOME (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

| | Three months ended 30 June | | Six months ended 30 June | |
|--|----------------------------|--------------|--------------------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Notes | KD'000 | KD'000 | KD'000 | KD'000 |
| (Loss) / profit for the period | (77) | 8,608 | (11,776) | 13,675 |
| Other comprehensive income/ (loss) | | | | |
| Change in fair value of available for sale investments | 1,822 | 111 | 326 | (891) |
| Net unrealised losses on available for sale investments transferred to statement of income | - | - | 2,175 | - |
| Exchange differences on translation of foreign operations | 660 | 60 | 931 | (144) |
| Other comprehensive income/ (loss) for the period | 2,482 | 171 | 3,432 | (1,035) |
| Total comprehensive income/ (loss) for the period | 2,405 | 8,779 | (8,344) | 12,640 |
| Attributable to: | | | | |
| Equity holders of the Bank | 2,472 | 8,725 | (8,299) | 12,565 |
| Minority interest | (67) | 54 | (45) | 75 |
| Total comprehensive income/ (loss) for the period | 2,405 | 8,779 | (8,344) | 12,640 |

The notes from 1 to 18 form an integral part of this condensed consolidated interim financial information.

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



CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(UNAUDITED)

At 30 June 2009

| | | 30 June 2009 | (Audited) 31 December 2008 | 30 June 2008 |
|--|-------|-----------------|----------------------------------|-----------------|
| | Notes | KD'000 | KD'000 | KD'000 |
| Assets | | | | |
| Cash and cash equivalents | | 61,830 | 67,996 | 24,996 |
| Due from banks | 7 | 190,504 | 141,320 | 250,282 |
| Due from non-banks | 8 | 518,348 | 475,431 | 421,483 |
| Financial assets held at fair value through profit or loss | | 45,070 | 44,097 | 42,692 |
| Available-for-sale investments | 9 | 67,674 | 58,181 | 54,888 |
| Investment in associates | 10 | 7,281 | 5,914 | 6,490 |
| Trading properties | | 2,865 | 2,754 | 2,643 |
| Investment properties | | 34,634 | 29,962 | 8,157 |
| Other assets | | 10,584 | 9,919 | 10,537 |
| Property and equipment | | 4,476 | 4,887 | 5,105 |
| Total assets | | 943,266 | 840,461 | 847,273 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Due to banks | | 74,326 | 118,131 | 145,643 |
| Depositors' accounts | | 725,830 | 569,636 | 534,016 |
| Other liabilities | | 13,990 | 15,153 | 15,493 |
| Total liabilities | | 814,146 | 702,920 | 695,152 |
| Equity | | | | |
| Share capital | | 116,531 | 116,531 | 116,531 |
| Share premium | | 280 | 280 | 280 |
| Statutory reserve | | 3,913 | 3,913 | 3,709 |
| Voluntary reserve | | 3,591 | 3,591 | 3,406 |
| Fair value reserve | | 1,703 | (798) | 1,310 |
| Foreign currency translation reserve | | (688) | (1,619) | (877) |
| Retained earnings | | 1,519 | 13,250 | 25,393 |
| Equity attributable to equity holders of the Bank | | 126,849 | 135,148 | 149,752 |
| Minority interest | | 2,271 | 2,393 | 2,369 |
| Total equity | | 129,120 | 137,541 | 152,121 |
| Total liabilities and equity | | 943,266 | 840,461 | 847,273 |

The notes from 1 to 18 form an integral part of this condensed consolidated interim financial information.


Ibrahim Ali Al-Qadhi
Chairman

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



CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

| | Share capital | Share premium | Statutory reserve | Voluntary reserve | Fair value reserve | Foreign currency translation reserve | Retained earnings | Attributable to equity holders of the bank | Minority interest | Total |
|---|---------------|---------------|-------------------|-------------------|--------------------|--------------------------------------|-------------------|--|-------------------|---------|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Balance at 31 December 2008 | 116,531 | 280 | 3,913 | 3,591 | (798) | (1,619) | 13,250 | 135,148 | 2,393 | 137,541 |
| Total comprehensive income for the period | - | - | - | - | 2,501 | 931 | (11,731) | (8,299) | (45) | (8,344) |
| Net movement in minority interest | - | - | - | - | - | - | - | - | (77) | (77) |
| Balance at 30 June 2009 | 116,531 | 280 | 3,913 | 3,591 | 1,703 | (688) | 1,519 | 126,849 | 2,271 | 129,120 |
| Balance at 31 December 2007 | 105,937 | 280 | 3,709 | 3,406 | 2,201 | (733) | 22,387 | 137,187 | 2,303 | 139,490 |
| Total comprehensive income for the period | - | - | - | - | (891) | (144) | 13,600 | 12,565 | 75 | 12,640 |
| Issue of bonus shares | 10,594 | - | - | - | - | - | (10,594) | - | - | - |
| Net movement in minority interest | - | - | - | - | - | - | - | - | (9) | (9) |
| Balance at 30 June 2008 | 116,531 | 280 | 3,709 | 3,406 | 1,310 | (877) | 25,393 | 149,752 | 2,369 | 152,121 |

The notes from 1 to 18 form an integral part of this condensed consolidated interim financial information.

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



CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2009 | 2008 |
| | KD'000 | KD'000 |
| OPERATING ACTIVITIES | | |
| (Loss) / profit for the period | (11,776) | 13,675 |
| Adjustments for: | | |
| Depreciation and amortisation | 743 | 626 |
| Provision for impairment | 7,947 | 1,505 |
| Foreign currency translation | (7,323) | (444) |
| Impairment loss on available for sale investments | 2,383 | - |
| Gain on sale of financial assets held at fair value through profit or loss | (46) | - |
| Gain on sale of available for sale investments | (243) | - |
| Unrealised loss / (gain) from financial assets held at fair value through profit or loss | 364 | (8,882) |
| Share of results of associates | (635) | (316) |
| Dividend income | (622) | (985) |
| Unrealised loss from changes in fair value of investment properties | 2,602 | 783 |
| | <u>(6,606)</u> | <u>5,962</u> |
| Changes in operating assets and liabilities: | | |
| Increase in balances due from banks | (59,616) | (62,329) |
| Increase in balances due from non-banks | (40,746) | (38,792) |
| Increase in other assets | (665) | (3,116) |
| Decrease in due to banks | (43,805) | (139,588) |
| Increase in depositors' accounts | 156,194 | 226,557 |
| (Decrease) / increase in other liabilities | (846) | 4,004 |
| Dividend income received | 622 | 985 |
| Net cash generated by / (used in) operating activities | <u>4,532</u> | <u>(6,317)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of financial assets held at fair value through profit or loss | (2,416) | (9,009) |
| Proceeds from sale of financial assets held at fair value through profit or loss | 4,930 | - |
| Purchase of available-for-sale investments | (10,802) | (2,765) |
| Proceeds from sale of available-for-sale investments | 3,052 | 5,352 |
| Proceeds from sale of investment properties | 158 | 82 |
| Purchase of investment properties | (5,211) | (10,024) |
| Purchase of property and equipment | (332) | (1,346) |
| Net cash used in investing activities | <u>(10,621)</u> | <u>(17,710)</u> |
| Net change in minority interest | <u>(77)</u> | <u>(9)</u> |
| Net decrease in cash and cash equivalents | (6,166) | (24,036) |
| Cash and cash equivalents at the beginning of the period | 67,996 | 49,032 |
| Cash and cash equivalents at the end of the period | <u>61,830</u> | <u>24,996</u> |

The notes from 1 to 18 form an integral part of this condensed consolidated interim financial information.

1. INCORPORATION AND ACTIVITIES

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

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

The condensed consolidated interim financial information as at and for the six months ended 30 June 2009 incorporate the financial information of the Bank and its subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed), Boubyan Capital Investment Company K.S.C. (Closed), Al-Seera Real Estate Company W.L.L. and Boubyan Industrial General Trading Company W.L.L. (together referred to as the "Group") and the Group's interests in associates (refer to note 11).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

These condensed consolidated interim financial information were authorised for issue by the Board of Directors on 13 July 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and the Kuwait Stock Exchange instruction No. 2 of 1998. The condensed consolidated interim financial information do not include all the information and notes required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as modified for use by the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRSs except for the IAS 39 requirement for collective impairment provision, which has been replaced by the CBK requirement for a minimum general provision as described below.

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In addition, in accordance with the CBK instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities has been retained as a general provision until further directive from the CBK is issued. For further information, refer to the consolidated financial statements and notes thereto included in the Group's consolidated financial statements for the year ended 31 December 2008.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

The operating results for the six-month period ended 30 June 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009.

The condensed consolidated interim financial information have been prepared using the same accounting policies and methods of computation with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2008, except for changes resulting from amendments to IFRSs as mentioned below.

During the period the Group has adopted the following standards that came into effect from 1 January 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

IAS 1 (Revised) 'Presentation of Financial Statements':

The revised standard has introduced a number of terminology change (including revised titles for the condensed consolidated interim financial information and has resulted in a number of changes in presentation and disclosures). The revised standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in an condensed consolidated interim statement of comprehensive income. However, the revised standard has had no impact on the reported results or financial position of the Group.

IFRS 8 'Operating segments':

This new standard which replaced IAS 14 'Segment reporting' requires a management approach for segment reporting under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker.

Basis of consolidation

The condensed consolidated interim financial information for the six-month period ended 30 June 2009 include the Bank and its subsidiaries referred to in note (1) above.

The financial statements of the subsidiary are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial information.

The subsidiaries accounts were based on their management accounts for the six-month period ended 30 June 2009. The total subsidiary's consolidated assets, liabilities and net loss included in this condensed consolidated interim financial information amounted to KD 41,164 thousand, KD 21,653 thousand and KD 2,213 thousand respectively.

Judgement and estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2008.

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
 INFORMATION (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

3. INVESTMENT INCOME / LOSS

Investment income

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|--------------|--------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| Gain on money market funds | 519 | 1,045 | 1,548 | 1,812 |
| Unrealised gain from change in fair value of financial assets held through profit or loss | 1,773 | 6,590 | 1,790 | 8,882 |
| Gain on sale of financial assets held at fair value through profit or loss | 28 | - | 46 | - |
| Gain on sale of available for sale investments | 243 | - | 243 | - |
| Sukuk coupon income | 346 | 480 | 736 | 1,051 |
| Net rental income from investment properties | 327 | 313 | 618 | 511 |
| Unrealised gain from changes in fair value of investment properties | - | - | - | 165 |
| Dividend income | 107 | 741 | 622 | 985 |
| | <u>3,343</u> | <u>9,169</u> | <u>5,603</u> | <u>13,406</u> |

Investment loss

| | Three months ended 30 June | | Six months ended 30 June | |
|--|----------------------------|--------------|--------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| Loss on money market funds | (870) | - | (6,424) | - |
| Unrealised gain/(loss) from change in fair value of financial assets held at fair value through profit or loss | 557 | - | (2,154) | - |
| Impairment loss on available for sale investments | - | - | (2,383) | - |
| Unrealised loss from changes in fair value of investment properties | (1,663) | - | (2,602) | (948) |
| | <u>(1,976)</u> | <u>-</u> | <u>(13,563)</u> | <u>(948)</u> |
| Net investment income/(loss) | <u>1,367</u> | <u>9,169</u> | <u>(7,960)</u> | <u>(12,458)</u> |

4. FEES AND COMMISSIONS INCOME

| | Three months ended 30 June | | Six months ended 30 June | |
|------------------------------|----------------------------|------------|--------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| Retail banking customer fees | 211 | 82 | 356 | 149 |
| Investment banking fees | 366 | - | 366 | 738 |
| Asset management fees | 336 | 460 | 874 | 996 |
| Trade service fees | 128 | 182 | 303 | 339 |
| Other | 207 | 175 | 265 | 479 |
| | <u>1,248</u> | <u>899</u> | <u>2,164</u> | <u>2,701</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
 INFORMATION (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

5. PROVISION FOR IMPAIRMENT

| | Three months ended 30 June | | Six months ended 30 June | |
|--|----------------------------|------------|--------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| Provision for impairment of balances due from banks | 4,432 | - | 10,432 | - |
| Provision / (release of provision) for impairment of balances due from non-banks | 421 | 749 | (2,171) | 1,489 |
| (Release of provision) / provision on non-cash facilities | (303) | - | (314) | 16 |
| | <u>4,550</u> | <u>749</u> | <u>7,947</u> | <u>1,505</u> |

Movements in the provision for impairment are as follows:

| | Specific | General | Total |
|---|---------------|--------------|---------------|
| | KD'000 | KD'000 | KD'000 |
| Balance at 31 December 2008 | 7,216 | 18,196 | 25,412 |
| Provided / (released) during the period | 18,770 | (10,823) | 7,947 |
| Balance at 30 June 2009 | <u>25,986</u> | <u>7,373</u> | <u>33,359</u> |

As of 31 December 2008, provision for impairment included an additional general provision amounting to KD 11,000 thousand. During the current period, KD 11,000 thousand has been reclassified from general to specific provision category.

6. (LOSS) / EARNING PER SHARE

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the period is as follows:

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|------------------|--------------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| (Loss) / profit for the period attributable to equity holders of the bank | (10) | 8,554 | (11,731) | 13,600 |
| Weighted average number of shares outstanding (thousands of shares) | <u>1,165,312</u> | <u>1,165,312</u> | <u>1,165,312</u> | <u>1,165,312</u> |
| (Loss) / earning per share (fils) | <u>(0.01)</u> | <u>7.34</u> | <u>(10.07)</u> | <u>11.67</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
 INFORMATION (UNAUDITED)

For the period from 1 January 2009 to 30 June 2009

7. DUE FROM BANKS

Due from banks principally comprise Murabaha and other Islamic financing and are stated net of provision for impairment. The distribution of Murabaha and other Islamic financing due from banks is as follows:

| | 30 June 2009 | (Audited) 31 December 2008 | 30 June 2008 |
|--------------------------------|-----------------|----------------------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Balance | 207,187 | 147,595 | 250,460 |
| Less: deferred profit | (251) | (275) | (178) |
| | 206,936 | 147,320 | 250,282 |
| Less: provision for impairment | (16,432) | (6,000) | - |
| | <u>190,504</u> | <u>141,320</u> | <u>250,282</u> |

Due from banks comprise of Murabaha and other Islamic financing facilities with banks (Islamic and conventional) are utilized in the purchase and sale of commodities, as trading is conducted by those banks on behalf of the Group. The discretion of the banks over buying and selling is limited by the terms of the agreements between the Group and the banks.

| | 30 June 2009 | 31 December 2008 | 30 June 2008 |
|--------------------------------|-----------------|---------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Geographic region | | | |
| Kuwait and The Middle East | 183,738 | 121,912 | 188,994 |
| Western Europe | 20,579 | 25,683 | 58,765 |
| Other | 2,870 | - | 2,701 |
| Less: deferred profit | (251) | (275) | (178) |
| | 206,936 | 147,320 | 250,282 |
| Less: provision for impairment | (16,432) | (6,000) | - |
| | <u>190,504</u> | <u>141,320</u> | <u>250,282</u> |

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

| | 30 June 2009 | (Audited) 31 December 2008 | 30 June 2008 |
|---|-----------------|----------------------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Balance at beginning of the period / year | 6,000 | - | - |
| Provided during the period / year | 10,432 | 6,000 | - |
| Balance at end of the period / year | <u>16,432</u> | <u>6,000</u> | <u>-</u> |

The fair values of Murabaha and other Islamic financing facilities due from banks do not differ significantly from their respective book values.

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8. DUE FROM NON-BANKS

Due from non-banks principally comprise Murabaha, Wakala and leased assets balances and are stated net of provision for impairment. The distribution of Murabaha and Wakala balances due from non-banks is as follows:

| | 30 June 2009 | (Audited) 31 December 2008 | 30 June 2008 |
|--------------------------------|-----------------|----------------------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Industry sector | | | |
| Financial institutions | 246,713 | 225,031 | 186,271 |
| Construction and real estate | 168,362 | 172,660 | 65,439 |
| Trading and manufacturing | 30,311 | 35,080 | 38,099 |
| Other | 104,010 | 70,748 | 144,669 |
| Less: deferred profit | <u>(14,912)</u> | <u>(9,781)</u> | <u>(7,303)</u> |
| | 534,484 | 493,738 | 427,175 |
| Less: provision for impairment | <u>(16,136)</u> | <u>(18,307)</u> | <u>(5,692)</u> |
| | <u>518,348</u> | <u>475,431</u> | <u>421,483</u> |
| | 30 June 2009 | 31 December 2008 | 30 June 2008 |
| | KD'000 | KD'000 | KD'000 |
| Geographic region | | | |
| Kuwait and The Middle East | 535,065 | 492,329 | 418,439 |
| Western Europe | 14,331 | 7,464 | 10,940 |
| Other | - | 3,725 | 5,099 |
| Less: deferred profit | <u>(14,912)</u> | <u>(9,780)</u> | <u>(7,303)</u> |
| | 534,484 | 493,738 | 427,175 |
| Less: provision for impairment | <u>(16,136)</u> | <u>(18,307)</u> | <u>(5,692)</u> |
| | <u>518,348</u> | <u>475,431</u> | <u>421,483</u> |

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

| | 30 June 2009 | (Audited) 31 December 2008 | 30 June 2008 |
|--|-----------------|----------------------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Balance at beginning of the period / year | 18,307 | 4,203 | 4,203 |
| (Released) / provided during the period / year | <u>(2,171)</u> | <u>14,104</u> | <u>1,489</u> |
| Balance at end of the period / year | <u>16,136</u> | <u>18,307</u> | <u>5,692</u> |
| Financial institutions | 2,445 | 2,753 | 724 |
| Other | <u>13,691</u> | <u>15,554</u> | <u>4,968</u> |
| | <u>16,136</u> | <u>18,307</u> | <u>5,692</u> |

Whenever necessary, Murabaha and Wakala balances due from non-banks are secured by acceptable forms of collateral to mitigate the related credit risks. Receivables from financial institutions comprise mainly transactions with acceptable credit quality institutions. The fair value of balances due from non-banks do not differ significantly from their respective book values.

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9. AVAILABLE-FOR-SALE INVESTMENTS

| | 30 June | (Audited) | 30 June |
|---|---------------|---------------|---------------|
| | 2009 | 31 December | 2008 |
| | KD'000 | KD'000 | KD'000 |
| Investment in Sukuk | 47,357 | 38,122 | 36,965 |
| Investment in unquoted securities | 8,872 | 8,444 | 8,444 |
| Investment in quoted securities | 427 | 1,927 | - |
| Investment in unquoted funds | 11,018 | 9,688 | 9,479 |
| | <u>67,674</u> | <u>58,181</u> | <u>54,888</u> |
| Investments carried at fair value | 67,674 | 58,181 | 48,009 |
| Investments carried at cost less impairment | - | - | 6,879 |
| | <u>67,674</u> | <u>58,181</u> | <u>54,888</u> |

Pursuant to the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, the Group reclassified certain trading assets to available-for-sale investment securities during 2008. The carrying amount and fair value of financial assets that have been reclassified during the six-month period ended 30 June 2009 is KD Nil (KD 5,332 thousand during the year ended 31 December 2008 and KD Nil during the six-month period ended 30 June 2008). Had these financial assets not been reclassified, the Group would have recognized a fair value loss of KD 162 thousand in the interim condensed consolidated statement of income and KD Nil in other comprehensive income for the six month period ended 30 June 2009. During the current period, the Bank has recognized an impairment loss of KD 1,477 thousand in the condensed consolidated interim statement of income relating to those reclassified financial assets.

10. INVESTMENTS IN ASSOCIATES

| | Country | Owner-ship % | 30 June | (Audited) | 30 June |
|-------------------------------------|-----------|--------------|--------------|--------------|--------------|
| | | | 2009 | 31 December | 2008 |
| | | | KD'000 | KD'000 | KD'000 |
| Bank Syariah Muamalat Indonesia Tbk | Indonesia | 21.28 | 6,199 | 4,948 | 5,462 |
| Ijarah Indonesia Finance Co. | Indonesia | 33.33 | 1,082 | 966 | 1,028 |
| | | | <u>7,281</u> | <u>5,914</u> | <u>6,490</u> |

The Group's share in the operating results of Bank Syariah Muamalat Indonesia TBK and Ijarah Indonesia Finance Company was recognised based on the latest management accounts as at 31 May 2009.

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11. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

| | 30 June 2009 | 31 December 2008 | 30 June 2008 |
|--|-----------------|---------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Due from related parties: | | | |
| Due from banks | - | 12,426 | - |
| Due from non-banks | 33,595 | 22,204 | 11,937 |
| Due to related parties: | | | |
| Due to banks | 78,700 | - | - |
| Depositors' accounts | - | 74,139 | 50,122 |
| Transactions with related parties: | | | |
| Letters of guarantee and letters of credit | 15 | 87 | 165 |
| Revenues | 1,399 | 2,701 | 1,034 |
| Expenses | 467 | 2,768 | 1,798 |

Compensation of key management personnel

Details of compensations for key management comprise the following:

| | Three months ended 30 June | | Six months ended 30 June | |
|--------------------------|----------------------------|--------|--------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| | KD'000 | KD'000 | KD'000 | KD'000 |
| Short-term benefits | 329 | 259 | 766 | 553 |
| Post-employment benefits | 22 | 62 | 96 | 84 |
| | 351 | 321 | 862 | 637 |

12. CONTINGENCIES AND COMMITMENTS

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

| | 30 June 2009 | 31 December 2008 | 30 June 2008 |
|-----------------------------------|-----------------|---------------------|-----------------|
| | KD'000 | KD'000 | KD'000 |
| Guarantees | 35,494 | 35,120 | 31,760 |
| Acceptances and letters of credit | 11,290 | 12,530 | 5,592 |
| Investment commitments | 585 | 1,134 | 1,689 |
| Capital commitments | 400 | 412 | 445 |
| Credit commitments | 22,120 | 55,172 | 14,354 |
| | 69,889 | 104,368 | 53,840 |

13. SEGMENT REPORTING

Business segments:

For management purposes, the Bank is organised into the following four major business segments:

Retail banking: Principally handling the deposits of individual customers and small businesses, and providing consumer type Murabaha and Islamic covered cards facilities.

Corporate banking: Principally handling Murabaha and Ijarah facilities for corporate and institutional customers.

Investment: Principally handling direct investments and local and international real estate investment.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with financial institutions, as well as the management of the Bank's funding operations.

Six months ended 30 June 2009

| | <u>Retail banking</u> | <u>Corporate banking</u> | <u>Investment</u> | <u>Treasury</u> | <u>Unallocated items</u> | <u>Total</u> |
|---------------------|---------------------------|------------------------------|-------------------|-----------------|------------------------------|-----------------|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Segment revenues | 1,320 | 7,154 | 4,192 | 14,216 | 653 | 27,535 |
| Segment expenses | (6,530) | (359) | (8,019) | (20,461) | (3,942) | (39,311) |
| Segment results | <u>(5,210)</u> | <u>6,795</u> | <u>(3,827)</u> | <u>(6,245)</u> | <u>(3,289)</u> | <u>(11,776)</u> |
| Segment assets | <u>36,915</u> | <u>182,907</u> | <u>104,172</u> | <u>603,421</u> | <u>15,851</u> | <u>943,266</u> |
| Segment liabilities | <u>266,497</u> | <u>622</u> | <u>1,361</u> | <u>535,988</u> | <u>9,678</u> | <u>814,146</u> |

Six months ended 30 June 2008

| | <u>Retail banking</u> | <u>Corporate banking</u> | <u>Investment</u> | <u>Treasury</u> | <u>Unallocated items</u> | <u>Total</u> |
|---------------------|---------------------------|------------------------------|-------------------|-----------------|------------------------------|----------------|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Segment revenues | 411 | 7,939 | 11,443 | 13,560 | 392 | 33,745 |
| Segment expenses | (3,713) | (673) | (1,257) | (9,143) | (5,284) | (20,070) |
| Segment results | <u>(3,302)</u> | <u>7,266</u> | <u>10,186</u> | <u>4,417</u> | <u>(4,892)</u> | <u>13,675</u> |
| Segment assets | <u>195,440</u> | <u>93,125</u> | <u>12,499</u> | <u>538,604</u> | <u>7,605</u> | <u>847,273</u> |
| Segment liabilities | <u>3,193</u> | <u>50</u> | <u>265,609</u> | <u>414,514</u> | <u>11,786</u> | <u>695,152</u> |

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13. SEGMENT REPORTING (CONTINUED)

Three months ended 30 June 2009

| | <u>Retail banking</u> | <u>Corporate banking</u> | <u>Investment</u> | <u>Treasury</u> | <u>Unallocated items</u> | <u>Total</u> |
|------------------|---------------------------|------------------------------|-------------------|-----------------|------------------------------|--------------|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Segment revenues | 1,217 | 3,335 | 1,483 | 8,430 | 11 | 14,476 |
| Segment expenses | (5,799) | (195) | 866 | (8,757) | (668) | (14,553) |
| Segment results | <u>(4,582)</u> | <u>3,140</u> | <u>2,349</u> | <u>(327)</u> | <u>(657)</u> | <u>(77)</u> |

Three months ended 30 June 2008

| | <u>Retail banking</u> | <u>Corporate banking</u> | <u>Investment</u> | <u>Treasury</u> | <u>Unallocated items</u> | <u>Total</u> |
|------------------|---------------------------|------------------------------|-------------------|-----------------|------------------------------|--------------|
| | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 | KD'000 |
| Segment revenues | 236 | 4,194 | 7,839 | 6,768 | 202 | 19,239 |
| Segment expenses | (2,051) | (206) | (170) | (4,665) | (3,539) | (10,631) |
| Segment results | <u>(1,815)</u> | <u>3,988</u> | <u>7,669</u> | <u>2,103</u> | <u>(3,337)</u> | <u>8,608</u> |

14. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements for the year ended 31 December 2008.

15. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 30 June 2009 amounted to KD 52,349 thousand (31 December 2008: KD 91,893 thousand and 30 June 2008: KD 220,188 thousand).

16. DIVIDENDS

The Annual General Assembly held on 14 April 2009, approved the consolidated financial statements for the year ended 31 December 2008 and the non distribution of dividends to the shareholders for the year ended 31 December 2008.

17. OTHER REGULATORY MATTERS

On 29 March 2009, the Central Bank of Kuwait has levied a penalty on the Bank amounting to KD 200 thousand, as a result of non compliance with certain instructions issued by the Central Bank of Kuwait.

18. COMPARATIVE FIGURES

Where necessary, certain comparative figures were reclassified to conform to the current period's presentation.