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

بنك بوبيان
Boubyan Bank

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2009

INDEX	**Page**

Deloitte.

Al-Fahad & Co.
Salhia Complex
Gate 2, 4th Floor
P.O. Box 23049
Safat 13091
State of Kuwait

Tel: + (965) 22438060
Tel: + (965) 22468934
Fax: + (965) 22452080
www.deloitte.com

KPMG

KPMG Safi Al-Mutawa & Partners
Rakan Tower, 18th floor
Fahad Al-Salem Street,
P.O. Box 24, Safat 13001, Kuwait
Tel : + 965 2247 5090
Fax : + 965 2249 2704

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Boubyan Bank K.S.C.
State of Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Boubyan Bank K.S.C. ("the Bank") and subsidiaries (collectively "the Group") which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, 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 consolidated financial statements together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all the information that is required by the Kuwait Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association; that an inventory count was duly carried out; and that, to the best of our knowledge and belief, no violations of the Kuwait Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Bank have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations during the year ended 31 December 2009.

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

Safi A. Al-Mutawa
License No. 138-A
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

9 February 2010
Kuwait

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2009

	Notes	31 December 2009 KD'000	31 December 2008 KD'000
Income			
Murabaha and other Islamic financing income		34,960	38,270
Investment income	5	7,325	19,028
Fees and commissions income	6	3,620	4,837
Share of results of associates	16	518	1,130
Net foreign exchange gain		755	131
Other income		330	15
		47,508	63,411
Expenses			
Staff costs		(10,446)	(10,303)
General and administrative expenses		(7,674)	(5,846)
Depreciation and amortization		(1,505)	(1,332)
		(19,625)	(17,481)
Profit before Murabaha cost, investment loss, provision for impairment and distribution to depositors		27,883	45,930
Murabaha cost		(1,768)	(3,890)
Investment loss	5	(27,342)	(3,717)
Provision for impairment	7	(39,511)	(20,450)
(Loss) / profit before distribution to depositors		(40,738)	17,873
Distribution to depositors	8	(11,275)	(15,851)
(Loss) / profit after distribution to depositors		(52,013)	2,022
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		-	(18)
National Labour Support Tax ("NLST")		-	(51)
Zakat		-	(21)
Net (loss) / profit for the year		(52,013)	1,932
Attributable to:			
Equity holders of the Bank		(51,695)	1,846
Non-controlling interest		(318)	86
Net (loss) / profit for the year		(52,013)	1,932
(Loss) / earnings per share attributable to the equity holders of the Bank (fils)	9	(44.36)	1.58

The notes from 1 to 35 form an integral part of these consolidated financial statements.

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	31 December 2009	31 December 2008
	KD'000	KD'000
(Loss) / profit for the year	(52,013)	1,932
Other comprehensive income / (loss)		
Change in fair value of available for sale investments	(350)	(2,999)
Transferred to statement of income on impairment loss of available for sale investments	2,383	-
Foreign currency translation adjustments	1,649	(886)
Other comprehensive income / (loss) for the year	3,682	(3,885)
Total comprehensive loss for the year	(48,331)	(1,953)
Attributable to:		
Equity holders of the Bank	(48,013)	(2,039)
Non-controlling interest	(318)	86
Total comprehensive loss for the year	(48,331)	(1,953)

The notes from 1 to 35 form an integral part of these consolidated financial statements.

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 KD'000	2008 KD'000
Assets			
Cash and cash equivalents	10	51,608	67,996
Due from banks	11	170,596	141,320
Islamic financing to customers	12	576,558	475,431
Financial assets at fair value through profit or loss	13	41,488	44,097
Available for sale investments	14	66,232	58,181
Investments in associates	16	7,386	5,914
Trading properties		2,862	2,754
Investment properties	17	35,914	29,962
Other assets	18	7,825	9,919
Property and equipment		4,310	4,887
Total assets		964,779	840,461
Liabilities and Equity			
Liabilities			
Due to banks	19	156,781	118,131
Depositors' accounts	20	708,957	569,636
Other liabilities	21	9,935	15,153
Total liabilities		875,673	702,920
Equity			
Share capital	22	116,531	116,531
Share premium	23	280	280
Statutory reserve	24	3,913	3,913
Voluntary reserve	25	3,591	3,591
Fair value reserve		1,235	(798)
Foreign currency translation reserve		30	(1,619)
(Accumulated losses) / retained earnings		(38,445)	13,250
Equity attributable to equity holders of the Bank		87,135	135,148
Non-controlling interest		1,971	2,393
Total equity		89,106	137,541
Total liabilities and equity		964,779	840,461

Ibrahim Ali Al-Qadhi
Chairman

Adel Abdul Wahab Al Majed
Chief Executive Officer

The notes from 1 to 35 form an integral part of these consolidated financial statements.

بنك بوبيان
Boubyan Bank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital	Share premium	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	(Accumulated losses) / retained earnings	Attributable to equity holders of the Bank	Non-controlling interest	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2008	105,937	280	3,709	3,406	2,201	(733)	22,387	137,187	2,303	139,490
Total comprehensive loss for the year	-	-	-	-	(2,999)	(886)	1,846	(2,039)	86	(1,953)
Issue of bonus shares	10,594	-	-	-	-	-	(10,594)	-	-	-
Transfer to reserves for the year	-	-	204	185	-	-	(389)	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	4	4
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 loss for the year	-	-	-	-	2,033	1,649	(51,695)	(48,013)	(318)	(48,331)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	(104)	(104)
Balance at 31 December 2009	116,531	280	3,913	3,591	1,235	30	(38,445)	87,135	1,971	89,106

The notes from 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

بنك بوبيان
Boubyan Bank

	Notes	31 December 2009 KD'000	31 December 2008 KD'000
OPERATING ACTIVITIES			
Net (loss) / profit for the year		(52,013)	1,932
Adjustments for:			
Provision for impairment	7	39,511	20,450
Depreciation and amortization		1,505	1,332
Foreign currency translation gain		(6,507)	(131)
Gain on sale of available for sale investments		(251)	(63)
Gain on sale of investment properties		-	(137)
Loss on sale of financial assets at fair value through profit or loss		95	-
Unrealized loss / (gain) from financial assets at fair value through profit or loss		2,544	(10,258)
Share of results of associates		(518)	(1,130)
Dividend income		(1,074)	(1,609)
Unrealized loss from change in fair value of investment properties		2,646	1,715
Impairment loss on available for sale investments		2,383	1,431
		(11,679)	13,532
Changes in operating assets and liabilities:			
Due from banks		(55,105)	40,633
Islamic financing to customers		(115,068)	(105,355)
Other assets		2,094	(2,498)
Due to banks		38,650	(160,407)
Depositors' accounts		139,321	262,177
Other liabilities		(4,959)	3,335
Dividend income received		1,074	1,609
Net cash (used in) / generated by operating activities		(5,672)	53,026
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		(2,416)	(14,816)
Proceeds from sale of financial assets at fair value through profit or loss		5,417	-
Purchase of available for sale investments		(12,235)	(15,588)
Proceeds from sale of available for sale investments		5,395	12,997
Dividends from associates		500	451
Purchase of investment properties		(6,504)	(15,773)
Proceeds from sale of investment properties		158	498
Purchase of property and equipment		(927)	(1,835)
Net cash used in investing activities		(10,612)	(34,066)
Net change in non-controlling interest		(104)	4
Net (decrease) / increase in cash and cash equivalents		(16,388)	18,964
Cash and cash equivalents at the beginning of the year		67,996	49,032
Cash and cash equivalents at the end of the year	10	51,608	67,996
NON-CASH TRANSACTION			
INVESTING ACTIVITY			
Transfer of investments in associates to financial assets at fair value through profit or loss		-	20,057

The notes from 1 to 35 form an integral part of these consolidated financial statements.

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 passed in 2003). The Bank's shares were listed in Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the Central Bank of Kuwait on 28 November 2004. The Bank is 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 address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 9 February 2010.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2009.

The adoption of the revised Standards affects the presentation and disclosure of these consolidated financial statements and does not affect the Group's reported results or financial position of the Group, as described below.

IAS 1 (revised 2007) *'Presentation of Financial Statements'*

The revised Standard has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. The revised Standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in a statement of comprehensive income.

IFRS 8 *'Operating Segments'*

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

IFRS 7 *'Financial instruments: Disclosures'*

The IASB published amendments to IFRS 7 in March 2009, which became effective in 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Standards and interpretations in issue not yet effective

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

• IAS 1 (Revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after 1 January 2010
• IAS 7 (Revised) *Statement of Cash Flows*	Effective for annual periods beginning on or after 1 January 2010
• IAS 17 (Revised) *Leases*	Effective for annual periods beginning on or after 1 January 2010
• IAS 24 (Revised) *Related Party Disclosures*	Effective for annual periods beginning on or after 1 January 2011
• IAS 27 (Revised) *Consolidated and Separate Financial Statements*	Effective for annual periods beginning on or after 1 July 2009

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards and interpretations in issue not yet effective (Continued)

• IAS 28 (Revised) Investments in Associates	Effective for annual periods beginning on or after 1 July 2009
• IAS 32 (Revised) Financial Instruments: Presentation	Effective for annual periods beginning on or after 1 February 2010
• IAS 36 (Revised) Impairment of Assets	Effective for annual periods beginning on or after 1 January 2010
• IAS 38 (Revised) Intangible Assets	Effective for annual periods beginning on or after 1 July 2009
• IAS 39 (Revised) Financial Instruments: Recognition and Measurement	Effective for annual periods beginning on or after 30 June 2009, 1 July 2009 and 1 January 2010
• IFRS 1 (Revised) First-time Adoption of International Financial Reporting Standards	Effective for annual periods beginning on or after 1 January 2010
• IFRS 2 (Revised) Share-based Payment	Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010
• IFRS 3 (Revised) Business Combinations	Effective for annual periods beginning on or after 1 July 2009
• IFRS 5 (Revised) Non-current Assets Held for Sale and Discontinued Operations	Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010
• IFRS 8 (Revised) Operating Segments	Effective for annual periods beginning on or after 1 January 2010
• IFRS 9 Financial Instruments	Effective for annual periods beginning on or after 1 January 2013
• IFRIC 9 (Revised) Reassessment of Embedded Derivatives	Effective for annual periods beginning on or after 1 July 2009
• IFRIC 16 (Revised) Hedges of a Net Investment in a Foreign Operation	Effective for annual periods beginning on or after 1 July 2009
• IFRIC 17 Distributions of Non-cash Assets to Owners	Effective for annual periods beginning on or after 1 July 2009
• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Effective for annual periods beginning on or after 1 July 2010

The directors anticipate that the adoption of these Standards and Interpretations where applicable and once become effective in future periods will not have a material financial impact on the consolidated financial statements of the Group in the period of initial application, except for IFRS 9 *Financial Instruments*.

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The IASB aims to replace IAS 39 in its entirety by the end of 2010. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (Continued)

In March 2007, the CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities as of 31 December 2007 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

The accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, except for changes resulting from amendments to IFRSs as mentioned in note 2.

Accounting convention

Unless otherwise indicated, the consolidated financial statements are presented in Kuwaiti Dinars rounded to the nearest thousand. The consolidated financial statements are prepared under the historical cost convention, except for certain available for sale investments, financial assets at fair value through profit or loss and investment properties that are stated at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed), Boubyan Capital Investment Company K.S.C., (Closed) and Boubyan Industrial General Trading Company W.L.L., which are controlled by the Bank (collectively "the Group") as mentioned in note 15. Control is achieved when the Bank has the power to govern the financial and operating policies of a subsidiary company so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All inter-group transactions, balances, income, expenses and unrealized gains are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

Due from banks and Islamic financing to customers

Qard Hassan – banks

Qard Hassan is a non-profit bearing financing intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the Qard Hassan period.

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group stated at amortized cost net of provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due from banks and Islamic financing to customers (Continued)

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amounts equal to the net investment outstanding in the leases less provision for impairment.

Investments

Investments are recognised and derecognised on settlement date. Investments are classified into the following categories:

- Financial assets at fair value through profit or loss ; and
- Available for sale investments.

Financial assets at Fair Value Through Profit or Loss ("FVTPL")

Financial assets are classified at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis.

Financial assets at FVTPL are measured initially at cost, which is the fair value of the consideration given. After initial recognition, the Group measures these assets at their fair values, without any deduction for transaction costs it may incur on sale or other disposal thereof with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or profit earned on the financial asset.

Available for sale investments

Available for sale investments are non-derivative investments that are not designated as another category of financial assets.

Available for sale investments are initially measured at cost, which is the fair value of the consideration given, plus directly attributable transaction costs. Gains and losses arising from subsequent changes in fair value are recognised in other comprehensive income, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of income for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. 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.

Offsetting

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

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Investments in associates

Associates are enterprises over which the Group exercises significant influence, and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in financial and operating policy decisions but not in control or joint control over those policies.

The results of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's share of ownership in that associate (which includes any long-term share of ownership that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of income.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Operating leases

Operating lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense on a straight-line basis; whereas any initial leasing fees paid as a premium to the lessor are deferred and amortized over the life of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment and uncollectability of financial assets

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

Impairment is determined as follows:

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

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

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

Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revaluated amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revaluated amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets and financial liabilities

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Due to banks and depositors' accounts

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Bank. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Bank. Non-investment accounts are carried at cost.

Murabaha payable

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortized cost.

End of service benefits

A provision is made for amounts payable to the employees for end of service benefits, which is calculated in accordance with the provisions of the Bank's bylaws and in accordance with the Labour Law of the State of Kuwait.

Provisions

A provision is recognized when, and only when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair values

Investments

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

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a fair value based on a similar publicly traded company, or based on the expected cash flows of the investments.

Available for sale investments with no reliable measures of their fair values or for which fair value information could not be obtained are carried at their initial cost less impairment losses, if any.

Other financial assets and liabilities

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

Investment properties

Fair values of the properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

Revenue recognition

- Income from Murabaha, Wakala, Salam and Leased assets are recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on an accruals basis.

Cash and cash equivalents

Cash includes cash in hand and cash at banks, both in local and foreign currencies. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Kuwaiti Dinars ("KD") rounded to the nearest thousand, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of income for the year, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of income in the year in which the foreign operation is disposed of.

Segment reporting

Operating segments are to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Such operating segments are divided as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

Fiduciary assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment as follows:

Asset category	Useful life in years
Furniture	5
Leasehold improvement	5
Office equipment	3
Tools	5

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits derived from items of property and equipment.

Intangible assets

Intangible assets acquired separately, which consist of software that have finite useful lives, are reported at cost less accumulated amortization and accumulated impairment losses. Software amortization is charged on a straight-line basis over its estimated useful life of 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Investment properties

Investment properties, which are held to earn rentals and / or for capital appreciation, are stated at their fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment properties are included in the consolidated statement of income for the period in which they arise.

Trading properties

Trading properties are held for short term purposes and stated at the lower of cost and net realizable value, determined on an individual basis. Cost comprises the purchase cost and other expenses incurred to complete the underlying transaction. Net realizable value is based on the estimated selling price less any future costs to be incurred on sale. Losses arising from valuation are included in the consolidated statement of income.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

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

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets or liabilities at fair value through profit or loss, the Group determined that it has met one of the criteria for this designation set out in the significant accounting policies (note 3).

Impairment of investments

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

Fair value hierarchy

As disclosed in note 30, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

Key sources of estimation uncertainty

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

Impairment losses on finance facilities

The Group reviews its irregular finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. 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 based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that has substantially the same characteristics; or
- other valuation models.

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

5. INVESTMENT INCOME / (LOSS)

Investment income	2009	2008
	KD'000	KD'000
Gain on money market funds	2,200	3,310
Unrealised gain from financial assets at fair value through profit or loss	725	10,829
Gain on sale of financial assets at fair value through profit or loss	39	-
Gain on sale of available for sale investments	251	63
Gain on sale of investment properties	-	137
Sukuk coupon income	1,428	1,988
Net rental income from investment properties	1,608	1,092
Dividend income	1,074	1,609
	7,325	19,028

Investment loss	2009	2008
	KD'000	KD'000
Loss on money market funds	(18,910)	-
Unrealised loss from financial assets at fair value through profit or loss	(3,256)	(571)
Loss from sale of financial assets at fair value through profit or loss	(134)	-
Impairment loss on available for sale investments	(2,396)	(1,431)
Unrealized loss from change in fair value of investment properties	(2,646)	(1,715)
	(27,342)	(3,717)
Net investment (loss) / income	(20,017)	15,311

Net investment (loss) / income earned on financial and non-financial assets, analyzed by category of asset, is as follows:

	2009	2008
	KD'000	KD'000
Income from available for sale investments	304	2,051
(Loss) / income from financial assets designated as at fair value through profit or loss	(19,254)	14,317
Loss from financial assets held for trading	(29)	(571)
Investment (loss) / income on financial assets	(18,979)	15,797
Loss from non-financial assets	(1,038)	(486)
	(20,017)	15,311

6. FEES AND COMMISSIONS INCOME

	2009	2008
	KD'000	KD'000
Retail banking customer fees	712	415
Investment banking fees	368	750
Asset management fees	1,491	1,772
Trade service fees	674	906
Other	375	994
	3,620	4,837

7. PROVISION FOR IMPAIRMENT

	2009	2008
	KD'000	KD'000
Provision for impairment of balances due from banks	25,829	6,000
Provision for impairment of balances Islamic financing to customers	13,941	14,103
(Release) / provision for impairment of non-cash facilities	(259)	347
	39,511	20,450

Movements in the provision for impairment of finance facilities are as follows:

	Specific	General	Total
	KD'000	KD'000	KD'000
Balance at 1 January 2008	-	4,962	4,962
Provided during the year 2008	7,216	13,234	20,450
Balance at 31 December 2008	7,216	18,196	25,412
Provided during the year 2009	35,906	3,605	39,511
Transfer from general to specific during the year	11,000	(11,000)	-
Balance at 31 December 2009	54,122	10,801	64,923

At 31 December 2009, non-performing finance facilities amounted to KD 17,174 thousand, net of provision amounted to KD 54,122 thousand (31 December 2008: KD 6,166 thousand, net of provision amounted to KD 7,216 thousand).

As of 31 December 2008, provision for impairment included an additional general provision amounting to KD 11,000 thousand. During the first quarter of 2009, KD 11,000 thousand has been reclassified from general to specific provision category.

The analysis of specific and general provision stated above is based on CBK requirements. In accordance with the CBK guidelines, a general provision of 1% has been provided on all cash facilities and 0.5% for the non-cash facilities not subject to specific provision, net of certain collaterals.

8. DISTRIBUTION TO DEPOSITORS

	2009	2008
	KD'000	KD'000
Investment deposits	10,841	14,142
Saving accounts	434	1,709
	11,275	15,851

9. (LOSS) / EARNINGS PER SHARE

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

	2009	2008
Net (loss) / profit for the year attributable to the equity holders of the Bank (KD'000)	(51,695)	1,846
Weighted average number of shares outstanding during the year (thousands of shares)	1,165,312	1,165,312
(Loss) / earnings per share attributable to the equity holders of the Bank (fils)	(44.36)	1.58

10. CASH AND CASH EQUIVALENTS

	2009	2008
	KD'000	KD'000
Cash on hand	5,800	6,128
Balances with CBK	-	159
Balances with banks – current accounts	2,339	862
Cash on hand and balances with banks	8,139	7,149
Short term funds	43,469	60,847
	51,608	67,996

The fair values of cash and cash equivalents do not differ from their respective book values.

11. DUE FROM BANKS

	2009	2008
	KD'000	KD'000
Balance	202,557	147,595
Less: deferred profit	(132)	(275)
	202,425	147,320
Less: provision for impairment	(31,829)	(6,000)
	170,596	141,320

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.

The distribution of balances due from banks are as follows:

	2009	2008
	KD'000	KD'000
Geographic region		
Kuwait and The Middle East	192,228	121,912
Western Europe	7,461	25,683
Other	2,868	-
Less: deferred profit	(132)	(275)
	202,425	147,320
Less: provision for impairment	(31,829)	(6,000)
	170,596	141,320

11. DUE FROM BANKS (CONTINUED)

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

	2009	2008
	KD'000	KD'000
Balance at beginning of the year	6,000	-
Provided during the year	25,829	6,000
Balance at end of the year	31,829	6,000

The fair values of due from banks do not differ significantly from their respective book values.

12. ISLAMIC FINANCING TO CUSTOMERS

Islamic financing to customers principally comprise Murabaha and Wakala balances and are stated net of provision for impairment. The distribution of balances Islamic financing to customers is as follows:

	2009	2008
	KD'000	KD'000
Industry sector		
Financial institutions	255,116	225,031
Construction and real estate	172,244	172,660
Trading and manufacturing	60,956	35,080
Other	148,709	70,748
Less: deferred profit	(28,219)	(9,781)
	608,806	493,738
Less: provision for impairment	(32,248)	(18,307)
	576,558	475,431

	2009	2008
	KD'000	KD'000
Geographic region		
Kuwait and The Middle East	606,947	492,329
Western Europe	4,499	7,465
Other	25,579	3,725
Less: deferred profit	(28,219)	(9,781)
	608,806	493,738
Less: provision for impairment	(32,248)	(18,307)
	576,558	475,431

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

	2009	2008
	KD'000	KD'000
Balance at beginning of the year	18,307	4,204
Provided during the year	13,941	14,103
Balance at end of the year	32,248	18,307
Financial institutions	10,680	2,753
Other	21,568	15,554
	32,248	18,307

Whenever necessary, Islamic financing to customers are secured by acceptable forms of collateral to mitigate the related credit risks. Balances due from financial institutions comprise mainly transactions with acceptable credit quality institutions. The fair values of Islamic financing to customers do not differ significantly from their respective book values.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 KD'000	2008 KD'000
Investment in unquoted securities	37,650	34,976
Investment in unquoted funds	3,475	5,571
Investment in quoted securities	363	3,550
	41,488	44,097

Financial assets at fair value through profit or loss are denominated in the following currencies:

	2009 KD'000	2008 KD'000
KD	15,769	18,725
GBP	20,920	18,976
US Dollar	3,830	4,391
Other	969	2,005
	41,488	44,097

14. AVAILABLE FOR SALE INVESTMENTS

	2009 KD'000	2008 KD'000
Investment in Sukuk	46,451	38,122
Investment in unquoted funds	10,585	9,688
Investment in unquoted securities	8,769	8,444
Investment in quoted securities	427	1,927
	66,232	58,181

Pursuant to the amendments to IAS 39 and the related amendments to IFRS 7 regarding reclassification of certain financial assets, the Group reclassified certain trading assets to available for sale investment securities during 2008. No reclassifications have been made during 2009 (KD 5,332 thousand during the year ended 31 December 2008). Had these financial assets not been reclassified, the Group would have recognized a fair value loss of KD 2,175 thousand in the consolidated statement of income which was recognized in other comprehensive income for the year ended 31 December 2008. During 2009 the Group has recognized an impairment loss of KD 2,132 thousand in the consolidated statement of income relating to those reclassified financial assets.

	2009 KD'000	2008 KD'000
Geographic region		
Kuwait and The Middle East	63,077	57,905
Others	3,155	276
	66,232	58,181

Available for sale investment are denominated in the following currencies:

	2009 KD'000	2008 KD'000
US Dollar	49,882	41,086
KD	14,976	15,150
Euro	1,374	1,945
	66,232	58,181

15. SUBSIDIARIES

During 2008, Boubyan Capital Investment Company K.S.C. (closed) ("BCICO"), in collaboration with its parent, Boubyan Bank, established Al-Seera Real Estate Company W.L.L. and Boubyan Industrial General Trading Company W.L.L. with an ownership interest in each of 91% for BCICO and 9% for Boubyan Bank. In April 2009, BCICO and the Bank have liquidated Al-Seera Real Estate Company resulting in KD 14 thousand loss born by the Bank.

Name of subsidiary	Country of incorporation	2009 proportion of ownership interest and voting power %	2008 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Co. KSC (Closed)	Kuwait	56.78	56.78	Takaful insurance
Boubyan Capital Investment Company KSC (Closed)	Kuwait	100.00	100.00	Islamic investments
Al-Seera Real Estate Company W.L.L.	Kuwait	-	100.00	Real estate
Boubyan Industrial General Trading Company W.L.L.	Kuwait	100.00	100.00	General trading

16. INVESTMENTS IN ASSOCIATES

The investments in associates comprise the following:

Name of associate	Country of incorporation	2009 proportion of ownership interest and voting power %	2008 proportion of ownership interest and voting power %	Principal activity
Bank Syariah Muamalat Indonesia Tbk	Indonesia	21.28	21.28	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	33.30	33.30	Islamic financing services

Bank Syariah Muamalat Indonesia Tbk (Bank Muamalat) was established in 1991 and commenced operations on May 1992. The establishment of Bank Muamalat was initiated by the Indonesian Council of Ulama (MUI), which was supported by a group of entrepreneurs.

Ijarah Indonesia Finance Company has been granted the license during 2007 from the relevant authorities in Indonesia to render financing services. The Group's investment in Ijarah Indonesia Finance Company amounted to KD 1,220 thousand as at 31 December 2009 (31 December 2008: KD 965 thousand).

The movement in the investments in associates balances is as follows:

	2009	2008
	KD'000	KD'000
Balance at the beginning of the year	5,914	25,306
Premium from associate	-	1,659
Transfer to financial assets at FVTPL	-	(20,057)
Share of results of associates	518	1,130
Dividends received	(500)	(451)
Foreign currency translation adjustments	1,454	(1,673)
	7,386	5,914

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The Group's share of results of associates, Bank Syariah Muamalat Indonesia TBK and Ijarah Indonesia Finance Company, is recognised based on the associates' management accounts as at 31 December 2009.

Summarized financial information in respect of the Group's associates is set out below:

	2009	2008
	KD'000	KD'000
Total assets	481,022	275,946
Total liabilities	(448,389)	(249,796)
Net assets	32,633	26,150
Group's share of net assets	7,386	5,914

	2009	2008
	KD'000	KD'000
Total revenue	29,269	16,429
Total profit	2,395	5,043
Group's share of results	518	1,130

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2009	2008
	KD'000	KD'000
Balance at the beginning of the year	29,962	18,960
Purchases during the year	6,504	15,773
Sales during the year	(158)	(360)
Unrealized loss from change in fair value of investment properties	(2,646)	(1,715)
Foreign currency translation adjustments	2,252	(2,696)
	35,914	29,962

Investment properties comprise a number of commercial properties that are managed by third parties in Europe, the United States and the Middle East.

Investment properties include properties with a carrying value of KD 26,291 thousand as at 31 December 2009 (31 December 2008: KD 19,478 thousand), which were acquired through a number of special purpose entities.

18. OTHER ASSETS

	2009	2008
	KD'000	KD'000
Accrued income	2,441	1,845
Prepayments	1,325	1,855
Acceptance letters of credit	1,652	3,486
Software	1,315	1,317
Other	1,092	1,416
	7,825	9,919

19. DUE TO BANKS

	2009 KD'000	2008 KD'000
Investment accounts	132,352	102,645
Non-investment accounts	24,429	15,486
	156,781	118,131

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

20. DEPOSITORS' ACCOUNTS

	2009 KD'000	2008 KD'000
Investment accounts	649,960	510,453
Non-investment accounts	58,997	59,183
	708,957	569,636

The fair values of the depositors' accounts do not differ significantly from their respective book values.

21. OTHER LIABILITIES

	2009 KD'000	2008 KD'000
Creditors and accruals	1,920	1,042
Accrued staff benefits	2,366	3,752
Clearing accounts	1,697	4,692
General provision on non-cash facilities	846	1,105
Margin accounts	500	572
Due to KFAS, NLST and Zakat	-	90
Other	2,606	3,900
	9,935	15,153

22. SHARE CAPITAL

	2009		2008	
	Shares	KD'000	Shares	KD'000
Authorized ordinary shares of par value 100 fils	1,166,000,000	116,600	1,166,000,000	116,600
Fraction shares not issued	(687,556)	(69)	(687,556)	(69)
Shares issued and fully paid	1,165,312,444	116,531	1,165,312,444	116,531

23. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Kuwait Commercial Companies Law.

24. STATUTORY RESERVE

As required by the Commercial Companies Law and the Bank's Articles of Association 10% of profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Bank's Articles of Association.

25. VOLUNTARY RESERVE

As required by the Bank's Articles of Association 10% of profit for the year is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

26. OPERATING LEASES

The Group has entered into several lease arrangements, mainly for renting buildings, offices and equipment. The total future minimum lease payments under the operating leases for each of the following periods is:

	2009	2008
	KD'000	KD'000
Not later than one year	2,120	2,499
After one year and not later than five years	5,440	5,288
	7,560	7,787

Such lease agreements are subject to automatic renewal unless one of the parties to that agreement notifies the other, with no purchase options or any escalation clauses.

27. 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 statement captions:

	2009	2008
	KD'000	KD'000
Due from related parties:		
Due from banks	60,753	12,426
Islamic financing to customers	61,870	22,204
Due to related parties:		
Due to banks	80,797	-
Depositors' accounts	6,046	74,139
Transactions with related parties:		
Letters of guarantee and letters of credit	2,299	87
Revenues	3,938	2,701
Expenses	(685)	(2,768)

The Group holds collateral against Islamic finance facilities to related parties in the form of unquoted shares. An estimate of the fair value of collateral held against Islamic finance facilities to related parties amounted to KD 24,514 thousand as at 31 December 2009 (31 December 2008: KD 8,000 thousand).

27. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 31 December 2009, impairment provision on finance facilities' balances due from related parties is amounted to KD nil (31 December 2008: KD 6,000 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2009	2008
	KD'000	KD'000
Short-term benefits	1,414	3,067
Post-employment benefits	147	138
	1,561	3,205

During the current year, the Bank did not sell available for sale investments to any of its subsidiaries (31 December 2008: sale of available for sale investments of KD 5,131 thousand).

28. CONTINGENCIES AND COMMITMENTS

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

	2009	2008
	KD'000	KD'000
Guarantees	40,360	35,120
Acceptances and letters of credit	13,270	12,530
Investment commitments	585	1,134
Capital commitments (projects under construction)	565	412
Credit commitments	16,159	55,172
	70,939	104,368

29. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

a. Business Segments

For management purposes, the Bank is organized 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.

29. SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2009

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Revenues by product						
Finance income	2,746	13,207	-	19,007	-	34,960
Investment income	-	-	3,697	3,628	-	7,325
Fees and commission	606	518	850	1,570	76	3,620
Share of results	-	-	518	-	-	518
Forex	-	-	-	755	-	755
Other	9	-	(29)	-	350	330
Segment revenues	3,361	13,725	5,036	24,960	426	47,508
Segment expenses	(12,089)	(874)	(9,743)	(66,213)	(10,602)	(99,521)
Segment results	(8,728)	12,851	(4,707)	(41,253)	(10,176)	(52,013)

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Assets						
Cash and cash equivalents	5,148	-	-	46,460	-	51,608
Due from banks	-	-	-	170,596	-	170,596
Islamic financing to customers	63,015	210,403	-	303,140	-	576,558
Financial assets at fair value through profit or loss	-	-	41,488	-	-	41,488
Available for sale investments	-	-	19,781	46,451	-	66,232
Investments in associates	-	-	7,386	-	-	7,386
Trading properties	-	-	2,862	-	-	2,862
Investment properties	-	-	35,914	-	-	35,914
Other assets	28	1,630	-	584	5,583	7,825
Property and equipment	2,237	125	82	250	1,616	4,310
Total assets	70,428	212,158	107,513	567,481	7,199	964,779
Liabilities and Equity						
Due to banks	5,451	-	-	151,330	-	156,781
Depositors' accounts	349,223	-	-	359,734	-	708,957
Other liabilities	1,310	819	812	296	6,698	9,935
Equity	(8,770)	12,358	(1,185)	(41,399)	128,102	89,106
Total liabilities and equity	347,214	13,177	(373)	469,961	134,800	964,779

29. SEGMENT REPORTING (CONTINUED)

For the year ended 31 December 2008

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Revenues by product						
Finance income	519	16,224	-	21,527	-	38,270
Investment income	-	-	13,729	5,299	-	19,028
Fees and commission	310	41	843	2,656	987	4,837
Share of results	-	-	1,130	-	-	1,130
Forex	-	-	-	131	-	131
Other	-	-	-	-	15	15
Segment revenues	829	16,265	15,702	29,613	1,002	63,411
Segment expenses	(9,567)	(5,974)	(4,779)	(32,208)	(8,951)	(61,479)
Segment results	(8,738)	10,291	10,923	(2,595)	(7,949)	1,932

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Assets						
Cash and cash equivalents	8,285	-	-	59,711	-	67,996
Due from banks	-	-	-	141,320	-	141,320
Islamic financing to customers	11,612	200,430	-	263,389	-	475,431
Financial assets at fair value through profit or loss	-	-	44,097	-	-	44,097
Available for sale investments	-	-	20,059	38,122	-	58,181
Investments in associates	-	-	5,914	-	-	5,914
Trading properties	-	-	2,754	-	-	2,754
Investment properties	-	-	29,962	-	-	29,962
Other assets	507	1,930	929	3,601	2,952	9,919
Property and equipment	2,085	100	77	193	2,432	4,887
Total assets	22,489	202,460	103,792	506,336	5,384	840,461
Liabilities and Equity						
Due to banks	41,260	-	-	76,871	-	118,131
Depositors' accounts	258,088	-	-	311,548	-	569,636
Other liabilities	611	1,060	195	276	13,011	15,153
Equity	(7,574)	13,010	(1,033)	17,467	115,671	137,541
Total liabilities and equity	292,385	14,070	(838)	406,162	128,682	840,461

Additions to non-current assets other than financial instruments as at 31 December 2009 amounted to KD 44,675 thousand (31 December 2008: KD 10,851 thousand) and are distributed on the Groups' business segments as follows:

	Retail banking	Corporate banking	Investment	Treasury	Unallocated items	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
31 December 2009	47,633	(4,309)	5,932	(1,061)	(3,520)	44,675
31 December 2008	11,856	(5,327)	10,942	(6,989)	369	10,851

29. SEGMENT REPORTING (CONTINUED)

b. *Geographical segment*

The Bank operates in various geographical sectors. The geographical analysis is as follows:

For the year ended 31 December 2009

	Kuwait & the Middle East	North America	Western Europe	Other	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets	887,337	4,927	59,425	13,090	964,779
Non-current assets (excluding financial instruments)	72,746	1,632	28,781	1,077	104,236
Liabilities and equity	962,010	-	2,769	-	964,779
Contingencies and commitments	55,750	-	-	15,189	70,939
Segment income	44,230	147	1,726	1,405	47,508
Segment (loss) /profit	(44,737)	147	(3,847)	(3,576)	(52,013)

For the year ended 31 December 2008

	Kuwait & the Middle East	North America	Western Europe	Other	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets	743,549	2,048	78,803	16,061	840,461
Non-current assets (excluding financial instruments)	36,183	155	22,138	1,084	59,560
Liabilities and equity	820,178	-	13,131	7,152	840,461
Contingencies and commitments	104,333	19	-	16	104,368
Segment income	50,614	157	9,178	3,462	63,411
Segment (loss) /profit	(843)	(422)	2,514	773	2,022

Concentration of assets and liabilities

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

The distribution of assets by industry sector was as follows:

	2009	2008
	KD'000	KD'000
Trading and manufacturing	60,185	29,687
Banks and financial institutions	535,773	517,782
Construction and real estate	244,769	218,271
Other	124,052	74,721
	964,779	840,461

The distribution of liabilities by industry sector was as follows:

	2009	2008
	KD'000	KD'000
Trading and manufacturing	951	24,799
Banks and financial institutions	324,296	346,405
Construction and real estate	61,914	26,596
Other	487,934	305,120
	875,095	702,920

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. The Group regularly reviews the risk management policies to reflect changes in markets, products and emerging best practice.

In the normal course of business, the Group uses primary financial instruments such as cash and short term funds, investments, bank borrowings, receivables and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. To limit this risk, the Group deals with recognized customers, including corporates, financial institutions and high net worth individuals and has policies and procedures in place to limit the amount of credit exposure to any single and related counter party. These policies include the non-concentration of credit risk. The Group minimizes other concentrations of credit risk by undertaking transactions with a large number of customers. All policies relating to credit are reviewed and approved by the Board of Directors.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Notes	Gross maximum exposure 2009	Gross maximum exposure 2008
		KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	10	45,808	61,868
Due from banks	11	170,596	141,320
Islamic financing to customers	12	576,558	475,431
Financial assets at fair value through profit or loss	13	41,488	44,097
Available for sale investments	14	66,232	58,181
Other assets (excluding software)	18	6,509	8,602
		907,191	789,499
Contingent liabilities		53,630	47,650
Commitments		17,309	56,718
Total credit risk exposure		978,130	893,867

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

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Risk concentrations of the maximum exposure to credit risk

The Group manages concentration of risk by client/counterparty, geographical region and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2009 was KD 45,740 thousand (31 December 2008: KD 28,794 thousand) before taking account of collateral or other credit enhancements, and KD 45,740 thousand (31 December 2008: KD 28,794 thousand) net of such protection.

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2009			2008		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Kuwait and The Middle East	179,196	692,292	871,488	121,505	608,184	729,689
North America	-	433	433	-	1,414	1,414
Western Europe	17,962	12,681	30,643	45,025	9,966	54,991
Other	-	4,627	4,627	-	3,405	3,405
	197,158	710,033	907,191	166,530	622,969	789,499

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

	2009			2008		
	Banks	Non-banks	Total	Banks	Non-banks	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Trading and manufacturing	-	61,837	61,837	-	30,047	30,047
Banks and financial institutions	197,158	325,554	522,712	166,530	309,485	476,015
Construction and real estate	-	207,737	207,737	-	209,380	209,380
Other	-	114,905	114,905	-	74,057	74,057
	197,158	710,033	907,191	166,530	622,969	789,499

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash collaterals
- Bank Guarantees
- Income generating and non-income generating real estate
- Shares and other Islamic financial instruments

The Group also may obtain guarantees from parent companies for financing provided to their subsidiaries. Management monitors the market value of collateral and requests additional collateral if required in accordance with the underlying agreement. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Collateral and other credit enhancements (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of asset for statement of financial position lines.

31 December 2009

	Neither past due nor impaired			
	Banks	Non-banks	Past due or impaired	Total
	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	2,339	43,469	-	45,808
Due from banks	163,709	-	6,887	170,596
Islamic financing to customers	-	567,778	8,780	576,558
Financial assets at fair value through profit or loss	24,098	17,390	-	41,488
Available for sale investments	-	65,805	427	66,232
Other assets (excluding software)	-	6,509	-	6,509
	190,146	700,951	16,094	907,191

31 December 2008

	Neither past due nor impaired			
	Banks	Non-banks	Past due or impaired	Total
	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	1,021	60,847	-	61,868
Due from banks	135,320	-	6,000	141,320
Islamic financing to customers	-	475,265	166	475,431
Financial assets at fair value through profit or loss	22,851	21,246	-	44,097
Available for sale investments	1,340	56,841	-	58,181
Other assets (excluding software)	-	8,602	-	8,602
	160,532	622,801	6,166	789,499

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Collateral and other credit enhancements (continued)

At 31 December 2009 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to reasonably approximate KD 8,010 thousand (31 December 2008: KD 4,210).

Finance facilities with renegotiated terms

Finance facilities with renegotiated terms are facilities that have been restructured due to deterioration in the counter party's financial position and where the Group has made concessions that it would not otherwise consider. Once the facility is restructured it remains in this category independent of satisfactory performance after restructuring or following restructuring, a previously over due customer account is reset to a normal status and managed together with other similar accounts. Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments.

During 2009, the Group has renegotiated the terms of certain balances Islamic financing to customers with a total of KD 26,470 thousand. Had these balances not been renegotiated, such balances would have been past due or impaired. As at 31 December 2009, the restructuring discussions with the relevant counterparties were not finalized. The ultimate outcome of the renegotiations can not presently be determined and, accordingly, no provision has been made in the consolidated financial statements for any effects on the Group that may result (2008: no instances).

Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices such as foreign currency and equity price risks.

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

The Group is not exposed to any risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

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

The Group is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group ensures that the net exposure is kept to an acceptable level by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The table below indicates the foreign currencies to which the Group had significant exposure as at 31 December. The analysis calculates the effect of a 5 percent increase in foreign currency rates against Kuwaiti Dinar, with all other variables held constant, on the reported results and equity. A negative amount in the table reflects a potential net reduction in reported results or equity, while a positive amount reflects a net potential increase.

	2009		2008	
	Effect on reported results	Effect on equity	Effect on reported results	Effect on equity
	KD'000	KD'000	KD'000	KD'000
US Dollar	(673)	(591)	(282)	(37)
Sterling Pound	(120)	(76)	16	16
Euro	239	239	119	119
Indonesian Rupiah	308	369	21	317

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect to the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2009 would have increased equity by KD 460 thousand (31 December 2008: an increase of KD 519 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of KD 1,901 thousand (31 December 2008: an increase of KD 1,926 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group has a set of policies and procedures, which 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 Group. Operational risk is managed to ensure compliance with policies and procedures and monitors operational risk as part of overall risk management activities.

The operational risk of the Group is managed in line with the CBK instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations. 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 have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities. Further, the Group periodically assesses the financial viability of customers.

The Group has established an Asset and Liabilities Management committee to manage assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The following table summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective maturities as indicated by the availability of liquid funds. The maturity profile is monitored by management to ensure that adequate liquidity is maintained. The maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The maturity profile of the assets and liabilities is as follows:

31 December 2009

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets					
Cash and cash equivalents	51,608	-	-	-	51,608
Due from banks	164,916	5,680	-	-	170,596
Islamic financing to customers	317,101	62,291	133,484	63,682	576,558
Financial assets at fair value through profit or loss	363	-	-	41,125	41,488
Available for sale investments	46,878	-	-	19,354	66,232
Investments in associates	-	-	-	7,386	7,386
Trading properties	-	-	2,862	-	2,862
Investment properties	-	-	-	35,914	35,914
Other assets	4,391	2,772	331	331	7,825
Property and equipment	-	-	-	4,310	4,310
Total assets	585,257	70,743	136,677	172,102	964,779
Liabilities and Equity					
Due to banks	122,041	2,769	26,284	5,687	156,781
Depositors' accounts	480,425	143,488	74,453	10,591	708,957
Other liabilities	9,935	-	-	-	9,935
Equity	-	-	-	89,106	89,106
Total liabilities and equity	612,401	146,257	100,737	105,384	964,779

31 December 2008

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Assets					
Cash and cash equivalents	67,996	-	-	-	67,996
Due from banks	138,556	2,764	-	-	141,320
Islamic financing to customers	325,883	64,123	64,364	21,061	475,431
Financial assets at fair value through profit or loss	-	-	-	44,097	44,097
Available for sale investments	38,122	-	-	20,059	58,181
Investments in associates	-	-	-	5,914	5,914
Trading properties	-	-	2,754	-	2,754
Investment properties	-	-	-	29,962	29,962
Other assets	6,269	-	-	3,650	9,919
Property and equipment	-	-	-	4,887	4,887
Total assets	576,826	66,887	67,118	129,630	840,461

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Liabilities and Equity					
Due to banks	118,131	-	-	-	118,131
Depositors' accounts	478,366	71,445	17,979	1,846	569,636
Other liabilities	12,683	939	-	1,531	15,153
Equity	-	-	-	137,541	137,541
Total liabilities and equity	609,180	72,384	17,979	140,918	840,461

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments approximate their fair values at 31 December due to the relatively short-term maturity of the instruments except that it was not possible to reliably measure the fair value of certain unquoted securities.

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2009	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Available for sale financial assets	-	66,232	-	66,232
Financial assets at fair value through profit or loss	-	41,125	-	41,125
Financial assets held for trading	363	-	-	363
	363	107,357	-	107,720

During the year ended 31 December 2009, available for sale financial assets with a carrying amount of KD 427 thousand were transferred from level 1 to level 2 because quoted prices in the market for such securities became no longer regularly available. In order to determine the fair value of such securities, management used a valuation technique in which all significant inputs were based on observable market data. There has been no transfer from level 2 to level 1 in 2009.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

During the year, the Group had complied in full with all its externally imposed capital requirements.

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

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

The Group's regulatory capital position at 31 December was as follows:

	2009	2008
	KD'000	KD'000
Tier 1 capital		
Share capital	116,531	116,531
Share premium	280	280
Statutory reserve	3,913	3,913
Voluntary reserve	3,591	3,591
(Accumulated losses) / retained earnings	(38,445)	13,250
Non-controlling interest	1,971	2,393
Deductions from tier 1 capital *(50% of investments in associates and sukuk investment)*	(5,814)	(972)
	82,027	138,986
Tier 2 capital		
Fair value reserve	569	(798)
Foreign currency translation reserve	-	(1,619)
General provision	6,945	6,751
Deductions from tier 2 capital *(50% of investments in associates and sukuk investment)*	(5,814)	(972)
	1,700	3,362
Total regulatory capital	83,727	142,348
Risk-weighted assets	604,932	586,511
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	13.84%	24.27%
Total tier 1 capital expressed as a percentage of risk-weighted assets	13.56%	23.70%

31. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the group's classification of each class of financial assets and liabilities

31 December 2009

	Designated as at fair value	Held for trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	51,608	-	-	-	-	51,608
Due from banks	-	-	170,596	-	-	170,596
Islamic financing to customers	-	-	576,558	-	-	576,558
Financial assets at fair value through profit or loss	41,125	363	-	-	-	41,488
Available for sale investments	-	-	-	66,232	-	66,232
	92,733	363	747,154	66,232	-	906,482
Due to banks	-	-	-	-	156,781	156,781
Depositors' accounts	-	-	-	-	708,957	708,957
	-	-	-	-	865,738	865,738
(Expenses) / income	(19,029)	(56)	34,960	106	(13,043)	2,938

31 December 2008

	Designated as at fair value	Held for trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents	67,996	-	-	-	-	67,996
Due from banks	-	-	141,320	-	-	141,320
Islamic financing to customers	-	-	475,431	-	-	475,431
Financial assets at fair value through profit or loss	40,547	3,550	-	-	-	44,097
Available for sale investments	-	-	-	58,181	-	58,181
	108,543	3,550	616,751	58,181	-	787,025
Due to banks	-	-	-	-	118,131	118,131
Depositors' accounts	-	-	-	-	569,636	569,636
	-	-	-	-	687,767	687,767
Income / (expenses)	14,317	(571)	38,270	2,051	(19,741)	34,326

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank amounted to KD 43,702 thousand (31 December 2008: KD 91,893 thousand).

33. GENERAL ASSEMBLY

The general assembly of the shareholders held on 14 April 2009 decided not to distribute bonus shares dividends (31 December 2008: the general assembly of the shareholders held on 17 March 2008 has approved bonus share dividends at 10% of the outstanding number of shares held by the shareholders registered in the Bank's records at the general assembly date).

The Ordinary and Extraordinary General Assemblies of the bank held on 17 September and 1 October 2009 respectively have approved the Bank's authorized capital increase from KD 116,600 thousand to KD 174,900 thousand through issuance of 583,000 thousand shares. Authorized capital increase amounted to KD 58,300 thousand and 100 fils per share, in addition to share premium amounted to KD 87,450 and 150 fils per share

34. OTHER REGULATORY MATTERS

During the year 2009, the CBK has levied penalties on the Bank amounting to KD 333 thousand (31 December 2008: KD nil), as a result of non compliance with certain instructions issued by the Central Bank of Kuwait.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.