

**Bahrain Islamic Bank B.S.C.**  
**UNIFIED SHARI'A SUPERVISORY BOARD REPORT,**  
**REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT**  
**AUDITORS' REPORT TO THE SHAREHOLDERS AND**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2009**

To the shareholders of

**Bahrain Islamic Bank B.S.C.**

**In The Name of Allah, most Gracious, most Merciful  
Peace and Blessings Be Upon His Messenger**

Assalam Alaykum Wa Rahmatu Allah Wa Barakato

Pursuant to the powers entrusted to the Sharia'a Supervisory Board to supervise the Bank's activities and investments, we hereby submit the following report.

The Sharia'a Supervisory Board monitored the operations, transactions and contracts related to the Bank throughout the year ended 31 December 2009 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the guidelines and decisions issued by the Sharia'a Supervisory Board. The Sharia'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Bank's Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Sharia'a Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through the Sharia'a Internal Audit department. We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. The Sharia'a Internal Audit department audited the Bank's transactions and submitted a report to the Sharia'a Supervisory Board. The report confirmed the Bank's commitment and conformity to the Sharia'a Supervisory Board's opinions.


The Sharia'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. It held several meetings throughout the year ended 31 December 2009 and replied to inquiries, in addition to approving a number of new products presented by the Management. The Sharia'a Supervisory Board discussed with the Bank's officials all transactions and applications carried out by the Management throughout the year and reviewed the Bank's conformity with the provisions and principles of Islamic Sharia'a as well as the resolutions and guidelines of the Sharia'a Supervisory Board.

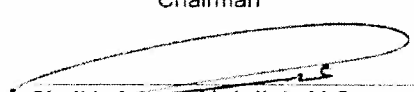
**The Sharia'a Supervisory Board believes that:**

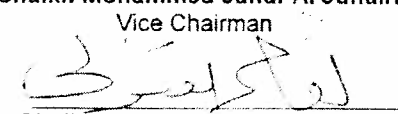
1. Contracts, operations and transactions conducted by the Bank throughout the year ended 31 December 2009 were made in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board.
3. Any gains resulted from any sources or means prohibited by the provisions and principles of Islamic Sharia'a, has been directed to the charity and donations Account according to SSB's resolution.
4. Zakah was calculated according to the provisions and principles of Islamic Sharia'a. The Bank distributed Zakah on the statutory reserve, general reserve and retained earnings. The shareholders should pay their portion of Zakah on their shares as stated in the financial report.
5. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI).

**We pray that Allah may grant all of us further success and prosperity**

  
Dr. Shaikh A. Latif Mahmood Al Mahmood  
Chairman

  
Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman

  
Shaikh Adnan Abdullah Al Qattan  
Member

  
Shaikh Nedham M. Saleh Yacoubi  
Member

  
Shaikh Dr. Essam Khalaf Al Onazi  
Member

## Chairman's Statement

*In the name of Allah, the Most Beneficent, the Most Merciful.*

*Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.*

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bahrain Islamic Bank (BisB) for the year ended 31 December 2009. Given the global financial crisis and economic downturn, and its subsequent adverse effect on Bahrain and the rest of the GCC, this proved to be an even more challenging year than expected for the entire regional banking industry. It is therefore satisfying to be able to report that BisB achieved a solid overall performance in 2009.

Due to the Bank's prudent management approach, our primary focus on the Bahrain market, and our adherence to Islamic Sharia principles, BisB was not directly affected by the global crisis. However, on an indirect basis, it was not possible to remain immune from the continued market volatility, the effects of the sharp correction in the real estate sector and the impact of the credit squeeze on business growth, which characterised the region during the year. The unexpected announcement of default by two major corporate business groups in Saudi Arabia, the overleveraging challenges faced by several investment banking institutions across the GCC and the Dubai debt moratorium only served to worsen the situation for the banking sector in the GCC. Restoring trust in the region's business environment and financial system is a key priority for 2010. This will be achieved by greater regulatory control and the adoption of sound corporate governance and risk management practices.

On a more optimistic note, however, the economic outlook for Bahrain and the GCC region as a whole remains positive. The GCC states are sitting on very substantial natural and monetary reserves; their underlying macro-economic fundamentals remain sound and the recovery and stabilisation of oil prices will help the regional future growth. Any recovery in the economy has a positive effect on the banking and financial services industry, so we remain cautiously optimistic for 2010.

Despite difficult market conditions, BisB managed to maintain its competitive edge in Bahrain's commercial banking sector. On the business side, the Bank launched new banking products and expanded its ATM network for the retail customers. It provided corporate financing for two leading sovereign institutions and participated in a US\$ 2.1 billion private equity investment for a major new power and water project in Bahrain. At the same time, we continued to enhance the institutional capability of the Bank – further strengthening our corporate governance and risk management framework – while maintaining and continuing to enhance our substantial investment in people and information technology.

BisB achieved a strong underlying financial performance for 2009 with the financial position increased by 4.3% to BD 912 million. Gross income was BD 41 million for 2009. In light of the ongoing impact of the financial crisis and volatile market conditions, the Bank maintained a very prudent and conservative approach, making provisions for impairment of BD 26.4 million for 2009. This resulted in a net loss of BD 19.4 million for the year.

I would like to stress that BisB remains financially very solid – strongly capitalized and liquid. In 2009, BisB celebrated its 30th anniversary as the first Islamic commercial bank to be established in the Kingdom of Bahrain, and one of the first in the world. The Bank's status and reputation was further recognised during the year by the receipt of 'The Best Islamic Bank in Bahrain Award 2009' from the US financial journal *Global Finance*.

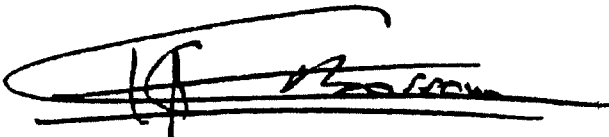
While proud of our achievements to date, we realise that we cannot afford to be complacent. Accordingly, the Board has approved a new three-year strategy for the Bank. Key elements of it include achieving and maintaining sustainable recurring income, increasing fee income to protect the financial position and enhancing customer service. We also plan to actively supporting key

Government infrastructure projects. Although 2009 was the most challenging year for the Bank, and for many other financial institutions in and outside the region we have the core fundamentals in place to return to profitability, take advantage of new business opportunities arising from improved market conditions and, importantly, continue to contribute positively to the economic and social well-being of Bahrain.

On behalf of the Board of Directors, I would like to extend my sincere appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership and visionary reform programme; and also for their encouragement for the Islamic banking sector, which remains a particular source of strength for Kingdom of Bahrain. My thanks are also due to the Central Bank of Bahrain and other Government institutions for their continued guidance and cooperation.

Finally, I would like to take this opportunity to express my gratitude to our shareholders and clients for their loyalty and support; to our Sharia'a Supervisory Board for their advice and supervision; and to the Bank's management and staff for their highly-valued dedication and professionalism.

*Allah the Almighty is the Purveyor of all Success.*

A handwritten signature in black ink, appearing to read 'Khalid Al Bassam', with a large, sweeping flourish above it.

**Khalid Abdulla Al Bassam**

Chairman

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.**

We have audited the accompanying consolidated statement of financial position of Bahrain Islamic Bank B.S.C. ["the Bank"] and its subsidiary ["the Group"] as of 31 December 2009, and the related consolidated statements of income, cash flows, changes in equity, sources and uses of good faith qard fund, sources and uses of zakah and charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

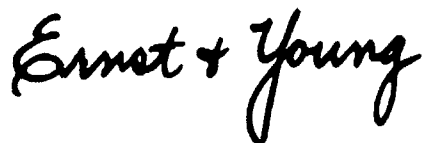
We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, the results of its operations, its cash flows, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

### **Other Regulatory Matters**

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence.

A stylized, handwritten-style signature of 'Ernst & Young' in black ink.

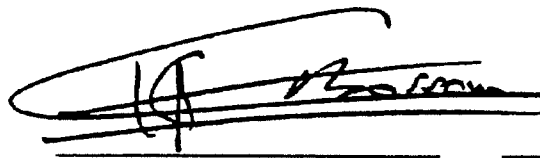
8 February 2010  
Manama, Kingdom of Bahrain

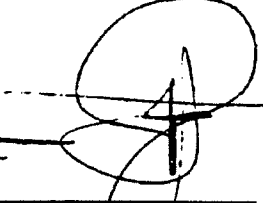
Bahrain Islamic Bank B.S.C.

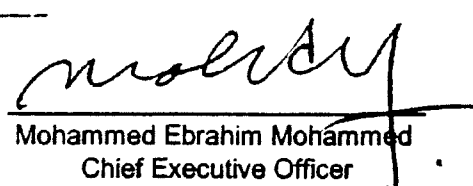
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 BD'000	2008 BD'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Bahrain and other banks	3	36,093	49,579
Murabaha receivables	4	332,519	368,563
Mudaraba investments	5	53,370	55,436
Musharaka investments	6	80,919	80,526
Investments	7	134,195	108,149
Investment in associates	8	7,448	7,423
Investment in Ijarah assets	9	9,771	9,901
Ijarah Muntahia Bittamleek	10	119,244	67,960
Investment in properties	11	123,030	116,873
Ijarah rental receivables		3,603	1,469
Other assets	12	11,758	8,088
<b>TOTAL ASSETS</b>		<b>911,950</b>	<b>873,967</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		79,724	69,466
Other liabilities	13	11,432	13,935
<b>Total Liabilities</b>		<b>91,156</b>	<b>83,401</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>			
Financial institutions' investment accounts	14	157,914	195,882
Customers' investment accounts	14	522,379	428,237
<b>Total Unrestricted Investment Accounts</b>		<b>680,293</b>	<b>624,119</b>
<b>EQUITY</b>			
Share capital	15	72,859	66,235
Treasury shares		(173)	-
Share premium		43,936	43,936
Reserves		23,132	42,387
Proposed appropriations		747	13,889
<b>Total Equity</b>		<b>140,501</b>	<b>166,447</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>911,950</b>	<b>873,967</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	17	<b>18,765</b>	<b>37,434</b>

  
 Khalid Abdulla Al Bassam  
 Chairman

  
 Nabil Ahmed Amin  
 Board Member

  
 Mohammed Ebrahim Mohammed  
 Chief Executive Officer

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

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2009

	Notes	2009 BD'000	2008 BD'000
<b>INCOME</b>			
Income from Islamic finances	18	30,300	28,864
Income from Sukuk and Commodities	18	5,394	8,070
		<b>35,694</b>	<b>36,934</b>
Gross return to unrestricted investment accounts		29,155	30,885
Group's share as a Mudarib		(11,517)	(13,183)
Return on unrestricted investment accounts		<b>17,638</b>	<b>17,702</b>
Group's share of income from joint financing and investment accounts		18,056	19,232
Net income from investments	19	3,164	6,372
(Loss) gain on sale of available for sale investments		(2,005)	11,907
Gain on fair value adjustment for investment in properties		-	11,436
Share of results of associates		(174)	663
Fee and commission income		4,418	4,990
Other income		433	1,038
<b>Total income</b>		<b>23,892</b>	<b>55,638</b>
<b>EXPENSES</b>			
Staff costs		9,812	10,528
Depreciation		1,320	929
Other expenses	20	5,750	5,971
<b>Total expenses</b>		<b>16,882</b>	<b>17,428</b>
<b>Net income before provisions</b>		<b>7,010</b>	<b>38,210</b>
Provision for impairment	21	(26,407)	(15,897)
<b>NET (LOSS) INCOME FOR THE YEAR</b>		<b>(19,397)</b>	<b>22,313</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	23	<b>(26.64)</b>	<b>30.65</b>

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

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

	Notes	2009 BD'000	2008 BD'000
<b>OPERATING ACTIVITIES</b>			
Net (loss) / income for the year		(19,397)	22,313
Adjustments for non-cash items:			
Depreciation		1,320	929
Provision for impairment	21	26,407	15,897
Gain on sale of investment in properties		-	(1,607)
Loss (gain) on sale of available for sale investments		2,005	(11,907)
Fair value gain on investment in properties		-	(11,436)
Share of results of associates	8	174	(663)
Operating profit before changes in operating assets and liabilities		10,509	13,526
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		7,838	(18,963)
Murabaha receivables		16,363	(38,460)
Mudaraba investments		1,986	(22,485)
Musharaka investments		(351)	(41,100)
Ijarah rental receivables		(2,134)	1,494
Other assets		(6,408)	(1,893)
Customers' current accounts		10,258	8,503
Other liabilities		(5,255)	5,772
Net cash from (used in) operating activities		32,806	(93,606)
<b>INVESTING ACTIVITIES</b>			
Purchase of investment in properties		(6,157)	(64,628)
Proceeds from disposal of investment in properties		-	7,220
Ijarah Muntahia Bittamleek		(51,284)	(54,386)
Purchase of investment in Ijarah assets		(5)	(4,143)
Purchase of investments		(60,275)	(30,821)
Proceeds from disposal of investments		28,013	39,046
Movement in investment in associates		(234)	480
Net cash used in investing activities		(89,942)	(107,232)
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		(173)	-
(Decrease) increase in financial institutions' investment accounts		(37,968)	32,664
Increase in customers' investment accounts		94,142	188,240
Dividends paid		(3,801)	(7,535)
Zakah paid		(712)	(264)
Net cash from financing activities		51,488	213,105
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		(5,648)	12,267
Cash and cash equivalents at 1 January		18,331	6,064
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	3	12,683	18,331
Cash and cash equivalents at year end comprise of:			
Cash in hand		5,927	3,974
Balances with CBB, excluding mandatory reserve deposits		1,044	3,015
Balances with banks and other financial institutions		5,712	11,342
		12,683	18,331

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves						Total equity BD'000			
	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Investment in properties fair value reserve BD'000		Cumulative changes in fair value of investments BD'000	Accumulated loss/ retained earnings BD'000	Proposed appropriations BD'000
Balance at 1 January 2009	66,235	-	43,936	10,268	1,000	18,093	(4,688)	17,714	13,889	166,447
Bonus shares issued (note 15)	6,624	-	-	-	-	-	-	-	(6,624)	-
Purchase of treasury shares (note 15)	-	(173)	-	-	-	-	-	-	-	(173)
Dividends paid	-	-	-	-	-	-	-	-	(6,624)	(6,624)
Zakah paid	-	-	-	-	-	-	-	-	(641)	(641)
Net loss for the year	-	-	-	-	-	-	-	(19,397)	-	(19,397)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	889	-	-	889
Transfer of changes in fair value reserve	-	-	-	-	-	-	2,368	(2,368)	-	-
Appropriations (note 15)	-	-	-	-	-	-	-	(747)	747	-
<b>Balance at 31 December 2009</b>	<b>72,859</b>	<b>(173)</b>	<b>43,936</b>	<b>10,268</b>	<b>1,000</b>	<b>18,093</b>	<b>(1,431)</b>	<b>(4,798)</b>	<b>747</b>	<b>140,501</b>

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

**Bahrain Islamic Bank B.S.C.**

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND**

For the year ended 31 December 2009

	<i><b>Qard hasan receivables BD'000</b></i>	<i><b>Funds available for qard hasan BD'000</b></i>	<i><b>Total BD'000</b></i>
<b>Balance at 1 January 2009</b>	10	118	128
Uses of qard fund			
Marriage	18	(18)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the year	59	(59)	-
Repayments	(67)	67	-
<b>Balance at 31 December 2009</b>	<b>2</b>	<b>126</b>	<b>128</b>
Balance at 1 January 2008	27	101	128
Uses of qard fund			
Marriage	17	(17)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the year	58	(58)	-
Repayments	(75)	75	-
Balance at 31 December 2008	10	118	128
		<b>2009 BD'000</b>	<b>2008 BD'000</b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
Total of sources during the year		<b>128</b>	<b>128</b>

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

**Bahrain Islamic Bank B.S.C.****CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the year ended 31 December 2009

	<b>2009</b> <b>BD'000</b>	<b>2008</b> <b>BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	<b>1,049</b>	486
Zakah due from the Bank for the year	<b>747</b>	641
Non-Islamic income / late fee	<b>206</b>	238
Total sources of Zakah and Charity funds during the year	<b>2,002</b>	1,365
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>677</b>	33
Aid to needy families	<b>233</b>	283
Total uses of funds during the year	<b>910</b>	316
Undistributed zakah and charity funds at the end of the year	<b>1,092</b>	1,049

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

## **1 INCORPORATION AND ACTIVITIES**

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in the year 1979 by Amiri Decree No.2 of 1979, under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a retail banking license issued by the Central Bank of Bahrain (CBB). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c) ("Subsidiary"). The Subsidiary was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorized and fully paid-up share capital of BD 25 million. The Subsidiary has started operations during the year 2007. The main activities of the Subsidiary are the management and development of real estate in accordance with the Islamic Shari'a rules and principles.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has twelve branches (2008: twelve), all operating in the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 8 February 2010.

## **2 SIGNIFICANT ACCOUNTING POLICIES**

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

### **a. Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment in properties, "available for sale" and "trading securities" investments that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

### **b. Statement of Compliance**

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, Central Bank of Bahrain ("CBB") and the Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ("the IFRS").

### **c. Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary (together referred to as the "Group") as at 31 December each year. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature.

The Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Basis of consolidation (continued)**

The financial statements of the subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

**d. Cash and cash equivalents**

For the purpose of consolidated cash flow statement, "cash and cash equivalents" consist of cash in hand, balances with banks and other financial institutions, balances with the Central Bank of Bahrain with original maturities of 90 days or less.

**e. Murabaha receivables**

Murabaha receivables consist mainly of deferred sales transactions (Murabaha) and international commodities, and stated net of deferred profits and provisions for impairment.

**f. Mudaraba and Musharaka investments**

These are stated at the fair value of consideration given less provision for impairment.

**g. Investments**

Investments comprise of held to maturity investment, available for sale investment and trading securities.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

*Held to maturity*

Investments which have fixed or determinable payments and where the Group has both the intent and ability to hold to maturity are classified as held to maturity. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

*Available for sale*

After initial recognition, available for sale investments are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported is included in the consolidated statement of income for the year.

Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in equity.

*Trading securities*

These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

**h. Fair value**

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

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### i. Investment in associates

The Group's investment in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investment in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of income reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated statement of income.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

### j. Ijarah assets, Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek other than land (which is deemed to have indefinite life), at rates calculated to write off the cost of each asset over its useful life.

For Ijarah assets, the depreciation is calculated using the straight-line method, at rates calculated to write off the cost of the assets over its estimated useful life. The estimated useful lives of the assets for calculation of depreciation ranges between 10 to 35 years.

### k. Investment in properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as Investment in properties. Investment in properties are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investment in properties are measured at fair value and changes in fair value are recognised in the consolidated statement of income.

In accordance with AAOIFI, such gains or losses are appropriated to investment in properties fair value reserve at year end. Upon realisation, these gain/losses are transferred to retained earnings from investment in properties fair value reserve.

### l. Unrestricted investment account holders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders share of income is calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by the Group in arriving at the unrestricted investment account holders' share of income is (total income from jointly financed Islamic finances less shareholders' "Bank" income). Portion of the income generated from unrestricted investment account holders will be deducted as Mudarib share and the remaining will be distributed to the unrestricted investment account holders.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m. Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib share, in order to cater against future losses for unrestricted investment account holders.

**n. Profit equalisation reserve**

The Group appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for unrestricted investment account holders.

**o. Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with the "FAS" issued by the "AAOIFI" using the net invested funds method. Zakah is paid by the Group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

**p. Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from 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 obligation.

**q. Derecognition of financial assets and liabilities**

*Financial assets*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

*Financial liabilities*

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

**r. Treasury shares**

These are own equity instruments of the Group which are acquired by it through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

**s. Earnings prohibited by Shari'a**

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**t. Joint and self financed**

Investments, financing and receivables that are jointly owned by the Group and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self financed".

**u. Offsetting**

Financial assets and financial liabilities are only offsetted and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**v. Revenue recognition**

*Murabaha receivables*

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

Where the income from a contract is not quantifiable, it is recognised when realised. Income related to non performing accounts is excluded from the consolidated statement of income.

*Musharaka investments*

Income is recognised when the right to receive payment is established or on distribution by the Musharek, whereas the losses are charged to income on their declaration by the Musharek.

*Mudaraba investments*

Income is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

*Ijarah and Ijarah Muntahia Bittamleek*

Ijarah income and income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the lease term. Income related to non performing Ijarah Muntahia Bittamleek is excluded from the consolidated statement of income.

*Dividends income*

Dividends are recognised when the right to receive payment is established.

*Income from Ijarah assets*

Rental income is accounted for on a straight-line basis over the Ijarah terms.

*Fee and commission income*

Fee and commission income is recognised when earned.

*Group's share of unrestricted investment income as a Mudarib*

The Group's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related mudaraba agreements.

*Income allocation*

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w. Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available for sale.

**x. Impairment of financial assets**

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

For available for sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

**y. Judgments and estimates**

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

*Impairment*

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

*Collective impairment provision*

Impairment is assessed collectively for losses on Islamic financing facilities that are not individually significant and for individually significant facilities where there is not yet objective evidence of individual impairment. Collective impairment is evaluated on each reporting date with each portfolio receiving a separate review.

*Fair valuation of investments*

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value criteria explained above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****y. Judgments and estimates (continued)***Classification of investments*

Real estate investments acquired to earn rentals or for capital appreciation are classified as investment property.

Management decides on acquisition of a financial asset whether it should be classified as "trading security", "available for sale" or "held to maturity".

**aa. Trade date accounting**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

**bb. Employees' end of service benefits**

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the consolidated statement of financial position.

Bahraini employees of the Group are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**cc. Shari'a supervisory board**

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

**3 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN AND OTHER BANKS**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Cash in hand	<b>5,927</b>	3,974
Balances with CBB, excluding mandatory reserve deposits	<b>1,044</b>	3,015
Balances with banks and other financial institutions	<b>5,712</b>	11,342
Cash and cash equivalents	<b>12,683</b>	18,331
Mandatory reserve with CBB	<b>23,410</b>	31,248
	<b>36,093</b>	49,579

The mandatory reserve with CBB is not available for use in the day-to-day operations.

31 December 2009

**4 MURABAHA RECEIVABLES**

	<b><i>Jointly financed 2009 BD'000</i></b>	<b><i>Jointly financed 2008 BD'000</i></b>
Murabaha with banks:		
International commodities	<b>76,319</b>	95,756
Other murabaha:		
Tawarooq	<b>143,043</b>	142,562
Letters of credit	<b>60,343</b>	49,746
Commodities murabaha with non-banks	<b>18,743</b>	35,421
Tasheel	<b>58,843</b>	37,992
Land	<b>1,120</b>	2,702
Building	<b>5,803</b>	9,816
Motor vehicles	<b>14,983</b>	15,590
Building materials	<b>1,782</b>	2,570
Furniture	<b>253</b>	182
Others	<b>2,520</b>	1,552
	<b>307,433</b>	298,133
Qard fund	<b>125</b>	125
	<b>307,558</b>	298,258
Gross receivables	<b>383,877</b>	394,014
Deferred profits	<b>(22,810)</b>	(16,584)
* Provision for impairment (note 21)	<b>(28,548)</b>	(8,867)
	<b>332,519</b>	368,563

\* This includes collective impairment provision of BD 4,976 thousand (2008: BD 5,343 thousand).

Non-performing Murabaha receivables outstanding as of 31 December 2009 amounted to BD 43,593 thousand (2008: BD 4,809 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the gross Murabaha receivables portfolio geographically and by sector is as follows:

	<b>2009</b>			<b>2008</b>		
	<i>Europe</i>	<i>Arab</i>		<i>Europe</i>	<i>Arab</i>	
	<i>BD'000</i>	<i>World</i>	<i>Total</i>	<i>BD'000</i>	<i>World</i>	<i>Total</i>
		<i>BD'000</i>	<i>BD'000</i>		<i>BD'000</i>	<i>BD'000</i>
Commercial	<b>12,166</b>	<b>141,440</b>	<b>153,606</b>	12,487	145,175	157,662
Financial institutions	<b>7,677</b>	<b>102,754</b>	<b>110,431</b>	7,880	105,467	113,347
Others including retail	<b>-</b>	<b>119,840</b>	<b>119,840</b>	-	123,005	123,005
<b>At 31 December</b>	<b>19,843</b>	<b>364,034</b>	<b>383,877</b>	<b>20,367</b>	<b>373,647</b>	<b>394,014</b>

31 December 2009

**5 MUDARABA INVESTMENTS**

	<i>Jointly financed 2009 BD'000</i>	<i>Jointly financed 2008 BD'000</i>
Mudaraba investments	<b>56,008</b>	58,857
Provision for impairment (note 21)	<b>(2,638)</b>	(3,421)
	<b>53,370</b>	55,436

The Group's Mudaraba investments transactions consist of investment in funds operated by other banks and financial institutions and participation in the financing transactions through other banks and financial institutions.

Impaired Mudaraba investments as of 31 December 2009 amounted to BD 5,749 thousand (2008: BD 10,095 thousand).

**6 MUSHARAKA INVESTMENTS**

	<i>Jointly financed 2009 BD'000</i>	<i>Jointly financed 2008 BD'000</i>
Musharaka investment in real estate	<b>80,927</b>	80,576
Provision for impairment (note 21)	<b>(8)</b>	(50)
	<b>80,919</b>	80,526

Non-performing Musharaka investments outstanding as of 31 December 2009 amounted to BD 4,157 thousand (2008: BD 3,754 thousand).

**7 INVESTMENTS**

	<i>2009</i>			<i>2008</i>		
	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>
<b>i) Held to maturity</b>						
<i>Unquoted investments</i>						
Sukuk	-	<b>93,075</b>	<b>93,075</b>	-	66,065	66,065
	-	<b>93,075</b>	<b>93,075</b>	-	66,065	66,065
<b>ii) Available for sale</b>						
<i>Quoted investments</i>						
Equity shares	<b>37,307</b>	-	<b>37,307</b>	22,182	-	22,182
<i>Unquoted investments</i>						
Equity shares	<b>14,030</b>	-	<b>14,030</b>	16,299	-	16,299
Sukuk	-	-	-	-	9,427	9,427
	<b>51,337</b>	-	<b>51,337</b>	38,481	9,427	47,908

31 December 2009

**7 INVESTMENTS (continued)**

	2009			2008		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
<b>iii) Trading securities</b>						
<i>Quoted investments</i>						
Equity shares	297	-	297	-	-	-
	297	-	297	-	-	-
	51,634	93,075	144,709	38,481	75,492	113,973
Provision for impairment on						
Held to maturity (note 21)	-	(2,099)	(2,099)	-	(1,043)	(1,043)
Available for sale (note 21)	(8,415)	-	(8,415)	(4,781)	-	(4,781)
	(8,415)	(2,099)	(10,514)	(4,781)	(1,043)	(5,824)
	43,219	90,976	134,195	33,700	74,449	108,149

**8 INVESTMENT IN ASSOCIATES**

The Group has the following investment in associates:

Associate	Country of incorporation	Ownership	
		2009	2008
Takaful International Company B.S.C.	Kingdom of Bahrain	22.75%	22.75%
Liquidity Management Centre B.S.C. (c)	Kingdom of Bahrain	25.00%	25.00%

Takaful International Company B.S.C. (incorporated in 1989) carries out takaful and retakaful activities in accordance with the teachings of Islamic Shari'a.

Liquidity Management Centre B.S.C. (c) was set up in 2002 to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

The following tables illustrate summarised financial information relating to the Group's associates:

	2009 BD'000	2008 BD'000	As at 1 January 2008 BD'000
<i>Shares of associates' statement of financial position:</i>			
Current assets	5,171	7,573	4,277
Non-current assets	26,239	28,296	26,592
Current liabilities	(22,144)	(21,974)	(22,654)
Non-current liabilities	(1,818)	(6,472)	(1,170)
<b>Equity</b>	<b>7,448</b>	<b>7,423</b>	<b>7,045</b>
<b>Shares of associates's profit</b>	<b>(174)</b>	<b>663</b>	<b>558</b>

31 December 2009

**9 INVESTMENT IN IJARAH ASSETS**

	2009			2008		
	<i>Self financed</i>			<i>Self financed</i>		
	<i>Land BD'000</i>	<i>Buildings BD'000</i>	<i>Total BD'000</i>	<i>Land BD'000</i>	<i>Buildings BD'000</i>	<i>Total BD'000</i>
Cost:						
At 1 January	6,600	5,640	12,240	2,453	5,640	8,093
Additions	-	-	-	4,147	-	4,147
At 31 December	6,600	5,640	12,240	6,600	5,640	12,240
Depreciation:						
At 1 January	-	2,339	2,339	-	2,200	2,200
Provided during the year	-	130	130	-	139	139
At 31 December	-	2,469	2,469	-	2,339	2,339
Net book value:						
At 31 December	6,600	3,171	9,771	6,600	3,301	9,901

**10 IJARAH MUNTAHIA BITTAMLEEK**

	2009				2008		
	<i>Jointly financed</i>				<i>Jointly financed</i>		
	<i>Land BD'000</i>	<i>Buildings BD'000</i>	<i>Others BD'000</i>	<i>Total BD'000</i>	<i>Land BD'000</i>	<i>Buildings BD'000</i>	<i>Total BD'000</i>
Cost:							
At 1 January	32,292	37,137	-	69,429	1,669	14,868	16,537
Additions	21,863	17,595	26,584	66,042	31,859	27,691	59,550
Disposals	(435)	(8,917)	-	(9,352)	(1,236)	(5,103)	(6,339)
Repayments	(224)	(2,329)	(719)	(3,272)	-	(319)	(319)
At 31 December	53,496	43,486	25,865	122,847	32,292	37,137	69,429
Depreciation:							
At 1 January	-	1,469	-	1,469	-	2,963	2,963
Provided during the year (note 18)	-	2,181	144	2,325	-	1,282	1,282
Relating to disposed assets	-	(191)	-	(191)	-	(2,776)	(2,776)
At 31 December	-	3,459	144	3,603	-	1,469	1,469
Net book value:							
As at 31 December	53,496	40,027	25,721	119,244	32,292	35,668	67,960

Impaired Ijarah Muntahia Bittamleek as of 31 December 2009 is BD 1,433 thousand (2008: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**11 INVESTMENT IN PROPERTIES**

	<b>2009</b>	<b>2008</b>
	<b>Self</b>	<b>Self</b>
	<b>financed</b>	<b>financed</b>
	<b>BD'000</b>	<b>BD'000</b>
Cost:		
At 1 January	98,780	39,289
Additions	6,157	64,628
Disposals	-	(5,137)
Cost at 31 December	104,937	98,780
Fair value adjustments	18,093	18,093
<b>Fair value at 31 December</b>	<b>123,030</b>	<b>116,873</b>

Investment in properties comprises of plots of land located in GCC countries.

Investment in properties are stated at fair value, which have been determined based on valuations performed by independent valuers, industry specialists in valuing these types of investment properties.

**12 OTHER ASSETS**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Equipment	4,534	3,635
Receivables under letter of credit	188	1,339
Staff advances	1,340	751
Income receivable	297	576
Receivables from related parties	2,945	-
Prepaid expenses	126	99
Others	3,881	1,688
	13,311	8,088
Provision for impairment (note 21)	(1,553)	-
	11,758	8,088

**13 OTHER LIABILITIES**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Payable to vendors	1,380	3,684
Accrued expenses	1,125	3,149
Clearance cheques	204	1,426
Murabaha bills payable	963	1,249
Managers' cheques	1,326	1,189
Dividends payable	3,536	713
Zakah and charity fund	345	408
Margin on letters of credit	201	216
Provision for employees' end of service benefits and leave	333	280
Others	2,019	1,621
	11,432	13,935

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**14 UNRESTRICTED INVESTMENT ACCOUNTS**

	<b>2009</b> <b>BD'000</b>	2008 BD'000
Customers	<b>522,379</b>	425,702
Profit equalisation reserve (note 14.1)	-	2,368
Investment risk reserve (note 14.2)	-	167
<b>Customers' investment accounts</b>	<b>522,379</b>	<b>428,237</b>
<b>Financial institutions' investment accounts</b>	<b>157,914</b>	<b>195,882</b>

**14.1 Movement in profit equalisation reserve**

	<b>2009</b> <b>BD'000</b>	2008 BD'000
Balance at 1 January	<b>2,368</b>	2,491
Transferred to income from jointly financed sales	<b>(2,368)</b>	(123)
Balance at 31 December	<b>-</b>	2,368

**14.2 Movement in investment risk reserve**

	<b>2009</b> <b>BD'000</b>	2008 BD'000
Balance at 1 January	<b>167</b>	-
Amounts apportioned (to) from income allocable to unrestricted investment account holders	<b>(167)</b>	167
Balance at 31 December	<b>-</b>	167

The profit equalisation reserve will revert to Unrestricted Investment Accounts as per terms and conditions of the Mudaraba contract.

As unrestricted investment account holders' funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of unrestricted investment accounts is up to a maximum of 65% (2008: 65% ).

The following table represents the distribution of profit to unrestricted investment account holders.

	<b>2009</b>		<b>2008</b>	
	<b>Percentage of funds invested</b>	<b>Percentage distribution</b>	<b>Percentage of funds invested</b>	<b>Percentage distribution</b>
Defined deposits	<b>87</b>	<b>2.90</b>	85	3.37
Specific investment deposits	<b>100</b>	<b>4.40</b>	100	3.5 - 4.5
Investment certificates	<b>90</b>	<b>4.00</b>	90	4.00
Savings accounts	<b>44</b>	<b>0.70</b>	43	0.70
Education and shifa	-	-	83	4.00
Iqra	<b>84</b>	<b>3.00</b>	83	2.67
Tejoori	<b>44</b>	<b>0.70</b>	43	0.67
VeVo	<b>45</b>	<b>0.70</b>	-	-



31 December 2009

**15 EQUITY**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
(i) Share capital		
a) <i>Authorised</i>		
1,000,000,000 shares of BD 0.100 each	<u><b>100,000</b></u>	<u>100,000</u>
b) <i>Issued and fully paid up</i>		
728,589,400 shares (2008: 662,354,000 shares) of BD 0.100 each	<u><b>72,859</b></u>	<u>66,235</u>

During the year the Group has issued bonus shares of 66,235 thousand (2008: 60,214 thousand) at one share for every ten shares held amounting to BD 6,624 thousand (2008: BD 6,021 thousand).

(ii) Treasury Shares		
	<b>2009</b>	<b>2008</b>
Number of treasury shares	<b>546,665</b>	-
Bonus shares (10%)	<b>54,667</b>	-
Treasury shares as a percentage of total shares in issue	<b>0.075%</b>	-
Cost of treasury shares in BD'000	<b>173</b>	-
Market value of treasury shares in BD'000	<b>118</b>	-

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**(iii) Share premium**

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

**(iv) Reserves***Statutory reserve*

As required by Bahrain Commercial Companies Law and the Group's articles of association, 10% of the net income for the year is transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. No transfer has been made for the current year as there was a net loss for the year. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

*General reserve*

The general reserve is established in accordance with the articles of association of the Group and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

*Investment in properties fair value reserve*

This represents cumulative unrealised revaluation gains on investment in properties. This reserve is transferred to the retained earnings upon sale of the investment properties.

31 December 2009

**15 EQUITY (continued)****(iv) Reserves (continued)***Cumulative changes in fair value of investments*

This represents the net unrealised gains or loss on available for sale investments relating to self financed investments.

**(v) Appropriations**

	<b>2009</b>	2008
	<b>BD'000</b>	BD'000
Proposed dividend	-	6,624
Bonus shares	-	6,624
Zakah	<b>747</b>	641
	<b>747</b>	13,889

The proposed appropriations for the year ended 2008 was approved at the Annual General Meeting held on 17 March 2009 and was effected in 2009 following that approval.

31 December 2009

**16 CAPITAL ADEQUACY**

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 makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issuing sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure is primarily made of its paid-up capital, including share premium and reserves. From regulation's perspective, the significant amount of the Group's capital are in Tier 1 form as defined by the CBB, i.e., most of the capital are of permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Core capital - Tier 1:</b>		
Issued and fully paid ordinary shares	<b>72,686</b>	66,235
General reserves	<b>1,000</b>	1,000
Legal / statutory reserves	<b>9,840</b>	8,037
Share premium	<b>43,936</b>	50,560
Retained earnings / losses (excluding current year net income/loss)	<b>11,380</b>	14,272
<b>Less:</b>		
Current interim cumulative net losses	<b>(18,634)</b>	-
Unrealized gross losses arising from fair valuing equity securities	<b>(2,636)</b>	(5,811)
<b>Tier 1 Capital before deductions</b>	<b>117,572</b>	134,293
<b>Supplementary capital - Tier 2:</b>		
Current year net income	-	9,934
Asset revaluation reserve - Equipment (45% only)	<b>6,302</b>	6,086
Unrealized gains arising from fair valuing equities (45% only)	<b>156</b>	329
<b>Tier 2 Capital before deductions</b>	<b>6,458</b>	16,349
<b>Total available capital</b>	<b>124,030</b>	150,642
<b>Deductions</b>		
Significant minority interest in banking, securities and financial entities	<b>(5,480)</b>	(5,710)
Excess amount over materiality threshold	<b>(7,452)</b>	(2,440)
Investment in insurance entity greater than or equal to 20%	<b>(1,593)</b>	(1,322)
Excess amount over maximum permitted large exposure limit	<b>(35,072)</b>	-
<b>Total eligible capital</b>	<b>74,433</b>	141,170

To assess its capital adequacy requirements in accordance to the CBB requirements, the Group adopts the Standardized Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk. The Capital requirements for these risks are as follows:

31 December 2009

**16 CAPITAL ADEQUACY (continued)**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Total Credit Risk Weighted Assets	<b>463,217</b>	390,344
Total Market Risk Weighted Assets	<b>24,255</b>	54,733
Total Operational Risk Weighted	<b>54,095</b>	36,965
<b>Total Regulatory Risk Weighted Assets</b>	<b>541,567</b>	482,042
<b>Capital Adequacy Ratio</b>	<b>13.74%</b>	29.29%
Minimum requirement	<b>12%</b>	12%

Starting from 2008, the Group has adopted the Basel II guidelines for calculation of the capital adequacy ratio.

**17 COMMITMENTS AND CONTINGENT LIABILITIES*****Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit and acceptances	<b>9,096</b>	27,578
Guarantees	<b>9,255</b>	9,564
Operating lease commitments *	<b>414</b>	292
	<b>18,765</b>	37,434

\* The Group has entered into commercial leases for certain branches. These leases have an average life of between 3 months and 7 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Within one year	<b>170</b>	60
After one year but not more than five years	<b>230</b>	224
More than five years	<b>14</b>	8
	<b>414</b>	292

***Credit Lines Commitment***

The Group has provided credit line to its associate of BD 9,425 thousand (2008:BD 9,425 thousand) for liquidity purposes which is fully utilised as of 31 December 2009 (2008: fully utilised).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**18 INCOME FROM JOINTLY FINANCED SALES AND INVESTMENTS**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from Islamic finances:		
Income from Murabaha receivables	16,645	16,397
Income from Mudaraba investments	872	2,250
Income from Musharaka investments	5,315	6,678
Income from Ijarah Muntahia Bittamleek - net *	7,468	3,539
	<u>30,300</u>	<u>28,864</u>
Income from Sukuk and Commodities:		
Income from Murabaha Commodities	1,422	4,058
Income from investments in Sukuk	3,972	4,012
	<u>5,394</u>	<u>8,070</u>

\* The details of Income from Ijarah Muntahia Bittamleek is as follows:

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from Ijarah Muntahia Bittamleek – gross	9,793	4,821
Depreciation during the year (note 10)	(2,325)	(1,282)
	<u>7,468</u>	<u>3,539</u>

**19 NET INCOME FROM INVESTMENTS**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Dividend income	1,640	4,191
Other investment income	1,564	574
Gain on sale of investment in properties	-	1,607
Unrealised loss on trading securities	(40)	-
	<u>3,164</u>	<u>6,372</u>

**20 OTHER EXPENSES**

	<b>2009</b>	<b>2008</b>
	<b>BD'000</b>	<b>BD'000</b>
Marketing, advertisement and re-branding expenses	1,047	1,664
Computer maintenance expenses	911	676
Board remuneration	-	586
Expenses on Ijarah assets	450	506
Communication expenses	776	438
Professional services and consultancy fees	518	331
Stationery expenses	279	270
Travelling and transportation expenses	183	258
Brokerage fees and commission	290	255
Shari'a committee remuneration and board expenses	200	144
Miscellaneous	1,096	843
	<u>5,750</u>	<u>5,971</u>

31 December 2009

**21 PROVISIONS**

	<i>Murabaha receivables</i>	<i>Mudaraba investments</i>	<i>Musharaka investments</i>	<i>Investments</i>	<i>Other assets</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2009</b>						
Provisions at 1 January	8,867	3,421	50	5,824	-	18,162
Written off during the year	(111)	(305)	(42)	(850)	-	(1,308)
	<u>8,756</u>	<u>3,116</u>	<u>8</u>	<u>4,974</u>	<u>-</u>	<u>16,854</u>
Provided (written back) during the year	19,792	(478)	-	5,540	1,553	26,407
	<u>28,548</u>	<u>2,638</u>	<u>8</u>	<u>10,514</u>	<u>1,553</u>	<u>43,261</u>
Provisions at 31 December						
Notes	4	5	6	7	12	
	<i>Murabaha receivables</i>	<i>Mudaraba investments</i>	<i>Musharaka investments</i>	<i>Investments</i>	<i>Other assets</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2008</b>						
Provisions at 1 January	1,915	-	50	315	-	2,280
Written off during the year	(15)	-	-	-	-	(15)
	<u>1,900</u>	<u>-</u>	<u>50</u>	<u>315</u>	<u>-</u>	<u>2,265</u>
Provided during the year	6,967	3,421	-	5,509	-	15,897
	<u>8,867</u>	<u>3,421</u>	<u>50</u>	<u>5,824</u>	<u>-</u>	<u>18,162</u>
Provisions at 31 December						
Notes	4	5	6	7	12	

**22 ZAKAH**

The total Zakah payable as of 31 December 2009 amounted to BD 2,692 thousand (2008: BD 3,687 thousand) of which BD 747 thousand (2008: BD 641 thousand) represent the Zakah on the statutory reserve, general reserve and retained earning as at 1 January 2009, is payable by the Bank. The remaining Zakah balance amounting to BD 1,945 thousand or 2.7 fils per share (2008: BD 3,046 thousand or 4.6 fils per share) is due and payable by the shareholders.

**23 EARNINGS PER SHARE**

Basic and diluted earnings per share is calculated by dividing the net (loss) income for the year by the weighted average number of shares during the year as follows:

	<b>2009</b>	<b>2008</b>
Net (loss) income for the year in BD'000'	<u>(19,397)</u>	<u>22,313</u>
Weighted average number of shares	<u>728,043</u>	<u>728,043</u>
Basic and diluted earnings per share (fils)	<u>(26.64)</u>	<u>30.65</u>

There have been no transactions during the year which caused dilution of the earnings per share.

**24 RELATED PARTY TRANSACTIONS**

Related parties represents associated companies, major shareholders, directors, key management personnel of the Group and Shari'a Supervisory Board.

The balances and values of major transactions with the related parties are as follows:

Related party	Transaction	Income (expense)		Balance at 31 December	
		2009	2008	2009	2008
		BD'000	BD'000	BD'000	BD'000
Shareholders*	Sukuk	-	202	4,197	4,009
Shareholders**	Tawarooq	902	2,090	19,665	22,573
Shareholders	Investment in properties	-	-	18,850	18,850
Shareholders*	Receivable	1,553	-	2,945	-
Associate	Sukuk	82	220	-	9,427
Associate	Mudaraba	138	59	13,136	2,770
Board of Directors	Ijarah Muntahia Bittamleek	9	52	-	356
Board of Directors	Musharaka	20	223	-	941
Board of Directors***	Tawarooq	82	-	1,259	-
Board of Directors	Expenses	(124)	(90)	-	-
Shari'a Supervisory Board	Expenses	(76)	(54)	-	-
Shari'a Supervisory Board	Murabaha	54	48	623	639
Key management personnel	Staff advances	-	-	454	186
		<b>2,640</b>	<b>2,750</b>	<b>61,129</b>	<b>59,751</b>

\* An amount of BD 5,750 thousand is considered as impaired for which provision of BD 3,652 thousand has been made.

\*\* An amount of BD 7,817 thousand is restructured during the year.

\*\*\* An amount of BD 1,259 thousand is restructured during the year.

**Compensation of the key management personnel is as follows:**

Key management personnel includes the staff in grade assistant general manager and above.

	2009	2008
	BD'000	BD'000
Short term employee benefits	1,046	803
Other long term benefits	133	183
	<b>1,179</b>	<b>986</b>

31 December 2009

## **25 RISK MANAGEMENT**

### **Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed mainly to credit, liquidity, market and operational risks.

### **Risk management objectives**

The risk management philosophy of the Group is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximizing the returns intended to optimize the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its Risk Strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

### **Structure and Organization of Risk Management Function**

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- a. Establishing overall policies and procedures; and
- b. Delegating authority to Executive Committee, Credit Committee, Managing Director, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises eight designated members of the Board of Directors. The Executive Committee is delegated authorities by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with the authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.



31 December 2009

## 25 RISK MANAGEMENT (continued)

### Risk Measurement & Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised, if necessary at least annually (or earlier if required).

#### a) Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

#### *Type of credit risk*

Financing contracts mainly comprise Murabaha receivables, Mudaraba investments, Musharaka investments and Ijarah Muntahia Bittamleek.

##### *Murabaha receivables*

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then resells this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabeh.

##### *Mudaraba investments*

The Group enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

##### *Musharaka investments*

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

##### *Ijarah Muntahia Bittamleek*

The legal title of the assets under Ijarah Muntahia Bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration or gradual sale, provided that all Ijarah installments are settled.

### Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals, guarantees and credit derivatives (Shari'a compliant protection) to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements, guarantees and credit derivatives (Shari'a compliant protection).

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security, when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured supported by assignments, guarantees, etc. as appropriate. Name lending (i.e. lending without audited financial statements and tangible collateral security) is discouraged and is approved only on an exceptional basis after careful analysis of the quality of the customer, market reputation, approximate personal net worth etc.

31 December 2009

**25 RISK MANAGEMENT (continued)****a) Credit Risk (continued)****Credit Risk Mitigation (continued)**

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

- a. Collateral security, fully covering the exposure; or
- b. Joint and Several Guarantees of shareholders directly involved in managing the entity as well as of shareholders owning at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

**(i) Gross maximum exposure to credit risk**

The market value of tangible collateral security are properly evaluated by the Group approved valuers (for properties) or based on publicly available quotations. Only the Loan-able Value of such security are taken into account while considering credit facilities.

From time to time, the CIC reviews and approves the Loan-able Value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	<i>Jointly financed 2009 BD'000</i>	<i>Jointly financed 2008 BD'000</i>
Balances with banks and other financial institutions	5,712	11,342
Murabaha receivables	361,067	377,430
Mudaraba investments	56,008	58,857
Musharaka investments	80,927	80,576
Investment in Sukuk	93,075	75,492
Ijarah muntahia bittamleek	119,244	67,960
Ijarah rental receivables	3,603	1,469
Other assets	1,825	2,666
	<b>721,461</b>	<b>675,792</b>
Letters of credit, guarantees and acceptances	<b>18,351</b>	<b>37,142</b>

31 December 2009

**25 RISK MANAGEMENT (continued)****a) Credit Risk (continued)****(ii) Risk concentrations of the maximum exposure to credit risk**

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, unrestricted investment accounts, commitments and contingent liabilities by geographic region and industry sector is as follows:

	<i>Assets</i>		<i>Liabilities and unrestricted investment accounts</i>		<i>Commitments and contingent liabilities</i>	
	<i>31 December 2009 BD'000</i>	<i>31 December 2008 BD'000</i>	<i>31 December 2009 BD'000</i>	<i>31 December 2008 BD'000</i>	<i>31 December 2009 BD'000</i>	<i>31 December 2008 BD'000</i>
<b>Geographical region</b>						
North America	4,210	5,995	-	-	-	-
Europe	25,744	48,053	-	-	-	-
Middle East	878,817	809,078	771,449	707,520	18,765	37,434
Rest of Asia	3,179	10,841	-	-	-	-
	<b>911,950</b>	<b>873,967</b>	<b>771,449</b>	<b>707,520</b>	<b>18,765</b>	<b>37,434</b>
<b>Industry sector</b>						
Trading and manufacturing	169,285	169,783	166,447	109,437	9,407	36,427
Banks and financial institutions	248,373	396,992	204,899	197,533	7,860	-
Others	494,292	307,192	400,103	400,550	1,498	1,007
	<b>911,950</b>	<b>873,967</b>	<b>771,449</b>	<b>707,520</b>	<b>18,765</b>	<b>37,434</b>

31 December 2009

**25 RISK MANAGEMENT (continued)****a) Credit Risk (continued)****(iii) Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system.

<b>31 December 2009</b>					
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade BD'000</i>	<i>Standard grade BD'000</i>			
			<i>Restructured BD'000</i>		
Murabaha receivables	8,167	248,336	58,201	2,770	361,067
Musharaka investments	-	46,099	30,541	130	80,927
Ijarah muntahia bittamleek	-	111,342	-	6,469	119,244
Ijarah rental receivables	-	3,603	-	-	3,603
	<b>8,167</b>	<b>409,380</b>	<b>88,742</b>	<b>9,369</b>	<b>564,841</b>

<b>31 December 2008</b>					
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade BD'000</i>	<i>Standard grade BD'000</i>			
Murabaha receivables	10,159	343,831	18,631	4,809	377,430
Musharaka investments	-	74,125	2,697	3,754	80,576
Ijarah muntahia bittamleek	-	66,970	990	-	67,960
Ijarah rental receivables	-	1,469	-	-	1,469
	<b>10,159</b>	<b>486,395</b>	<b>22,318</b>	<b>8,563</b>	<b>527,435</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**25 RISK MANAGEMENT (continued)****a) Credit Risk (continued)****(iv) Aging analysis of past due but not impaired Islamic financing facilities per class of financial assets**

	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2009</b>				
Murabaha receivable	462	2,264	44	2,770
Musharaka investments	108	22	-	130
Ijarah muntahia bittamleek	4,777	1,486	206	6,469
	<b>5,347</b>	<b>3,772</b>	<b>250</b>	<b>9,369</b>
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2008</b>				
Murabaha receivable	4,668	13,197	766	18,631
Musharaka investments	2,507	157	33	2,697
Ijarah muntahia bittamleek	987	3	-	990
	<b>8,162</b>	<b>13,357</b>	<b>799</b>	<b>22,318</b>

**b) Liquidity Risk**

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, international commodity Murabaha, credit lines and quoted investments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**25 RISK MANAGEMENT (continued)****b) Liquidity Risk (continued)****Maturity profile of Group's assets and liabilities**

The table below summarises 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 consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its unrestricted investment accounts.

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2009 was as follows:

ASSETS	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed	Total
	1 month	months	months	to 1 year	years	3 years	maturity	BD '000
Cash and balances with CBB and other banks	12,683	-	-	-	-	-	23,410	36,093
Murabaha receivables	145,302	24,434	30,468	36,492	38,698	57,125	-	332,519
Mudaraba investments	13,690	-	1,610	-	-	38,070	-	53,370
Musharaka investments	20,310	5,722	6,704	4,091	10,010	34,082	-	80,919
Investments	5,671	36,549	-	5,414	43,744	29,804	13,013	134,195
Investment in associates	-	-	-	-	-	-	7,448	7,448
Investment in Ijarah assets	-	-	-	-	-	-	9,771	9,771
Ijarah Muntahia Bittamleek	6,860	1,315	36,097	198	6,357	68,417	-	119,244
Investment in properties	-	-	-	-	-	-	123,030	123,030
Ijarah rental receivables	-	-	3,603	-	-	-	-	3,603
Other assets	-	-	7,224	-	-	-	4,534	11,758
Total assets	204,516	68,020	85,706	46,195	98,809	227,498	181,206	911,950
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>								
Customers' current accounts	79,724	-	-	-	-	-	-	79,724
Other liabilities	11,432	-	-	-	-	-	-	11,432
Unrestricted investment accounts	302,351	133,560	79,318	160,177	4,077	-	810	680,293
Equity	-	-	-	-	-	-	140,501	140,501
Total liabilities, unrestricted investment accounts and equity	393,507	133,560	79,318	160,177	4,077	-	141,311	911,950
Liquidity gap	(188,991)	(65,540)	6,388	(113,982)	94,732	227,498	39,895	-
Cumulative liquidity gap	(188,991)	(254,531)	(248,143)	(362,125)	(267,393)	(39,895)	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**25 RISK MANAGEMENT (continued)****b) Liquidity risk (continued)**

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2008 was as follows:

<b>ASSETS</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 months to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>No fixed maturity</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Cash and balances with the CBB and other banks	15,316	-	-	-	-	-	34,263	49,579
Murabaha receivables	142,380	57,020	72,305	33,920	18,078	44,860	-	368,563
Mudaraba investments	1,995	-	20,668	-	-	32,773	-	55,436
Musharaka investments	5,650	867	10,339	11,394	20,029	32,247	-	80,526
Investments	9,427	21,016	2,268	-	43,164	19,782	12,492	108,149
Investment in associates	-	-	-	-	-	-	7,423	7,423
Investment in Ijarah assets	-	-	-	-	-	-	9,901	9,901
Ijarah Muntahia Bittamleek	17,262	1,437	1,615	-	173	47,473	-	67,960
Investment in properties	-	-	-	-	-	-	116,873	116,873
Ijarah rental receivables	-	-	1,469	-	-	-	-	1,469
Other assets	-	-	4,453	-	-	-	3,635	8,088
<b>Total assets</b>	<b>192,030</b>	<b>80,340</b>	<b>113,117</b>	<b>45,314</b>	<b>81,444</b>	<b>177,135</b>	<b>184,587</b>	<b>873,967</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>								
Customers' current accounts	69,466	-	-	-	-	-	-	69,466
Other liabilities	13,935	-	-	-	-	-	-	13,935
Unrestricted investment accounts	340,886	118,223	54,793	105,048	2,633	-	2,536	624,119
Equity	-	-	-	-	-	-	166,447	166,447
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>424,287</b>	<b>118,223</b>	<b>54,793</b>	<b>105,048</b>	<b>2,633</b>	<b>-</b>	<b>168,983</b>	<b>873,967</b>
<b>Liquidity gap</b>	<b>(232,257)</b>	<b>(37,883)</b>	<b>58,324</b>	<b>(59,734)</b>	<b>78,811</b>	<b>177,135</b>	<b>15,604</b>	<b>-</b>
<b>Cumulative liquidity gap</b>	<b>(232,257)</b>	<b>(270,140)</b>	<b>(211,816)</b>	<b>(271,550)</b>	<b>(192,739)</b>	<b>(15,604)</b>	<b>-</b>	<b>-</b>

**25 RISK MANAGEMENT (continued)****c) Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, equity prices, and foreign exchange rates.

**(i) Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and unrestricted investment accounts as the repricing of assets, liabilities and unrestricted investment accounts occur at similar intervals. The profit distribution to unrestricted investment accounts is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

**(ii) Equity price risk**

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

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for 10% increase of the portfolio value with all other variables remain constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows;

	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	<i>%</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2009</b>			
Bahrain Stock Exchange	+10	16	2,269
Saudi Stock Exchange (TADAWUL)	+10	-	957
Dubai International Financial Exchange	+10	-	136
Qatar Stock Exchange	+10	-	368
Abu Dhabi Stock Exchange	+10	9	-
Kuwait Stock Exchange	+10	5	-
	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	<i>%</i>	<i>BD'000</i>	<i>BD'000</i>
<b>2008</b>			
Bahrain Stock Exchange	+10	-	1,861
Kuwait Stock Exchange	+10	-	211
Dubai International Financial Exchange	+10	-	136
Istanbul Stock Exchange	+10	-	11

As at consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 107 million (31 December 2008: BD 92 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.



31 December 2009

**25 RISK MANAGEMENT (continued)****c) Market Risk (continued)****iii) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

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

	<i><b>Equivalent Long (short)</b></i>	<i><b>Equivalent Long (short)</b></i>
	<i><b>2009</b></i>	<i><b>2008</b></i>
	<i><b>BD '000</b></i>	<i><b>BD '000</b></i>
<b>Currency</b>		
Pound Sterling	<b>(5,157)</b>	12,925
Euro	<b>23,880</b>	509
Kuwaiti Dinars	<b>(12,391)</b>	(16,862)
US Dollar	<b>(145,576)</b>	89,684

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange risk against the BD with other variables held constant will have an immaterial impact on the consolidated statement of income and equity.

**d) Operational Risk**

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

31 December 2009

**26 SEGMENTAL INFORMATION**

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

**27 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated statement of financial position.

**28 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A**

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a qard fund account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of good faith qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

**29 SHARI'A SUPERVISORY BOARD**

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

**30 SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through zakah and charity fund's expenditures and donations to good faith qard fund for marriage, refurbishment, medical treatments, etc.

**31 COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or equity.