

**GLOBAL BANKING CORPORATION B.S.C. (c)**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

Commercial registration:	65708
Central Bank License:	Wholesale Islamic Bank
Registered Office:	Building 1411, Road 4626, Manama / Sea front 346 Bahrain Financial Harbour District Kingdom of Bahrain Telephone + 973 17200200
Directors:	Saleh Al Ali Al Rashed, <i>Chairman</i> A. Rahman M. Al-Jasmi, <i>Vice Chairman &amp; Managing Director</i> Talal Al Mutawa Salah Saleh Asheer Khalid Al Ankary Fady Bakhos Terry A. Newendorp
Corporate Secretary:	Dr. Raid Al-Zude
Auditors:	KPMG

**GLOBAL BANKING CORPORATION B.S.C. (c)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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**CHAIRMAN'S REPORT**  
**for the year ended 31 December 2009**

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*In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad*

On behalf of the Board of Directors, it is my privilege to present the third Annual Report of Global Banking Corporation BSC (c) (GBCORP) for the year ended 31<sup>st</sup> December 2009.

The year 2009 has been a challenging one. As a reflection of the regional and global investment-banking scenario, GBCORP too, has felt the impact of the adverse effects of the global economic crisis. However, we have been consistently evolving our business strategies to keep abreast of the challenges, through prudent fiscal measures and today we are in a healthier position to address the challenges and opportunities of the future.

GBCORP is a comparatively new investment bank, and therefore the challenges provided us with a tremendous learning exercise, the most important lesson being that we cannot afford to be complacent at any stage. Risk mitigation measures, which were always a strong element of our investment initiatives, have been further strengthened. We have reviewed all our investments over the past years and developed new strategic investment options by diversifying our portfolio and entering into high potential new areas in global markets.

However, I am proud to say, that our values, have not changed with the times. We remain committed to human resource empowerment and even in the midst of the economic crisis; GBCORP has successfully retained its human capital and not felt the need to resort to retrenchments.

We continue to benefit from the confidence of our shareholders and build on our business strengths. Achieving financial stability in a volatile market is indeed a great challenge. I am confident that through the implementation of new strategies, the future years look increasingly fruitful and rewarding.

Our total operating income for the year ended 31<sup>st</sup> of December 2009, amounted to USD 9.3 million. Total expenses amounted to USD 28.2 million, inclusive of total provisions of USD 4.5 million, resulting in an overall loss of USD 18.8 million for the fiscal year 2009. We have been very cautious and prudent in booking provisions. We expect this trend to reverse as the market environment improves.

Our total assets dropped to USD 197.7 million from USD 455 million in 2008. This is attributed largely to our investor funds being utilized in our key projects. During this same period, our liabilities also dropped from USD 275 million in 2008 to USD 36 million in 2009.

However, we have, averaged an overall growth of 11 percent, since our inception in 2007, despite a drop of 10.5 percent in our equity in fiscal year 2009.

**CHAIRMAN'S REPORT**  
**for the year ended 31 December 2009**

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Our focus for 2010 will be on exiting one of our major real estate projects and leveraging on opportunities in more positive sectors, such as hospitality, telecom, energy and infrastructure. New investment initiatives and a diversified portfolio of investment instruments, prudent and pragmatic policies and effective streamlining of operations, will ensure that we continue to deliver on our commitment to our stakeholders and maintain an acceptable level of return on our investments.

The Board maintains its confidence, in the ability of GBCORP's management to continue to develop strategic initiatives to retain investor confidence and take necessary measures to develop and sustain growth in the challenging months ahead.

I would therefore like to take this opportunity to express the sincere appreciation of the Board to our shareholders, our clients and our strategic partners, for confidently supporting us during this period of uncertainty. Their continued trust and faith in our management and staff, has been a decisive factor in helping us to not only survive but also take full advantage of the fluctuating market conditions.

I also wish to thank our Shari'a Supervisory Board, and the region's regulatory and supervisory authorities, especially the Central Bank of Bahrain, for their constructive assistance and advice.

We continue to place immense value on our Islamic financial roots and have every faith in our future as a successful and respected Islamic investment bank.

The challenges are certainly not over, but we believe we have the vision, the business expertise, human capital and management skills to emerge victorious, because we have the wisdom to learn from every challenge and the enterprise to transform these challenges into opportunities.



Saleh Al Ali Al Rashed  
*Chairman of the Board*

25 February 2010

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**  
**GLOBAL BANKING CORPORATION B.S.C. (c)**  
Manama, Kingdom of Bahrain

25 February 2010

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Global Banking Corporation B.S.C.(c) (the "Bank") and its subsidiaries (together, the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity, cash flows and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Board of Directors' responsibility for the consolidated financial statements*

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Board of Directors is also responsible for the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles.

*Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Independent auditors' report to the shareholders (continued)*  
*25 February 2010*

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of the results of its operations, cash flows, changes in equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

In our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying Chairman's report and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2009**

US\$ 000's

	Note	31 December 2009	31 December 2008
<b>ASSETS</b>			
Cash and bank balances	4	33	1,074
Placements with financial and other institutions	5	44,590	297,872
Investment securities	6	71,801	23,982
Investment property	7	51,452	52,703
Receivable from investment banking services		-	42,975
Property and equipment	8	22,420	22,281
Other assets	9	7,359	14,981
<b>Total assets</b>		<b>197,655</b>	<b>455,868</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Investors' funds	10	3,775	223,269
Bank financing	11	29,841	43,222
Accruals and other liabilities	12	2,504	8,317
<b>Total liabilities</b>		<b>36,120</b>	<b>274,808</b>
<b>EQUITY</b>			
Share capital	13	173,750	156,250
Statutory reserve		5,801	5,801
(Accumulated losses) / retained earnings		(18,388)	19,009
<b>Total equity attributable to equity holders of the Bank</b>		<b>161,163</b>	<b>181,060</b>
<b>Non-controlling interest</b>		<b>372</b>	<b>-</b>
<b>Total equity (page 8)</b>		<b>161,535</b>	<b>181,060</b>
<b>Total liabilities and equity</b>		<b>197,655</b>	<b>455,868</b>
<b>OFF-BALANCE SHEET ITEMS</b>			
Restricted investment accounts (page 10)		<b>190,000</b>	<b>190,000</b>

The consolidated financial statements, which consist of pages 5 to 41, were approved by the Board of Directors on 25 February 2010 and signed on its behalf by:

  
**Saleh Al Ali Al Rashed**  
 Chairman

  
**A. Rahman M. Al Jasmi**  
 Vice Chairman & Managing Director

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

**CONSOLIDATED INCOME STATEMENT**  
**for the year ended 31 December 2009**

US\$ 000's

	Note	2009	2008
Income from investment banking services		4,956	40,570
Income from placements with financial and other institutions	17	1,721	8,257
Placement and arrangement fees		-	2,203
(Loss) / income from investment securities	14	(916)	1,070
Rental income from investment property		2,261	1,093
Other income		1,318	-
<b>Total income</b>		<b>9,340</b>	<b>53,193</b>
Staff cost	15	9,320	14,637
Professional and travel expenses		3,059	8,567
Marketing and corporate communication expenses		1,774	2,564
Finance expenses	17	2,172	1,344
Depreciation		4,116	1,239
Other operating expenses	16	3,214	3,626
Provision for impairment	6 (a)	4,528	-
<b>Total expenses</b>		<b>28,183</b>	<b>31,977</b>
<b>(Loss) / profit for the year</b>		<b>(18,843)</b>	<b>21,216</b>
<b>Attributable to:</b>			
Equity holders of the Bank		(18,817)	21,216
Non-controlling interest		(26)	-
		<b>(18,843)</b>	<b>21,216</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2009**

US\$ 000's

	<b>2009</b>	<b>2008</b>
<b>(Loss) / profit for the year</b>	<b>(18,843)</b>	<b>21,216</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>(18,843)</b>	<b>21,216</b>
<b>Attributable to:</b>		
Equity holders of the Bank	(18,817)	<b>21,216</b>
Non-controlling interest	(26)	-
	<b>(18,843)</b>	<b>21,216</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2009

US\$ 000's

2009

	Attributable to equity holders of the Bank				Non-controlling interest	Total
	Share capital	Statutory reserve	(Accumulated losses) / retained earnings	Total		
Balance at 1 January 2009	156,250	5,801	19,009	181,060	-	181,060
Total comprehensive income for the year (page 7)	-	-	(18,817)	(18,817)	(26)	(18,843)
Capitalisation of reserves (note 13)	17,500	-	(17,500)	-	-	-
Board remuneration declared for 2008 (note 19)	-	-	(1,080)	(1,080)	-	(1,080)
Contribution by non-controlling interest	-	-	-	-	398	398
<b>Balance at 31 December 2009</b>	<b>173,750</b>	<b>5,801</b>	<b>(18,388)</b>	<b>161,163</b>	<b>372</b>	<b>161,535</b>

2008

	Attributable to equity holders of the Bank				Non-controlling interest	Total
	Share capital	Statutory reserve	Retained Earnings	Total		
Balance at 1 January 2008	125,000	3,589	32,305	160,894	-	160,894
Total comprehensive income for the year	-	-	21,216	21,216	-	21,216
Capitalisation of reserves	31,250	-	(31,250)	-	-	-
Board remuneration declared for 2007	-	-	(1,050)	(1,050)	-	(1,050)
Transfer to statutory reserve	-	2,212	(2,212)	-	-	-
Balance at 31 December 2008	156,250	5,801	19,009	181,060	-	181,060

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

US\$ 000's

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Investors' funds received	13,026	556,831
Investors' funds paid	(237,042)	(400,061)
Income from investment banking services received	7,744	42,739
Rental income from investment property received	2,783	510
Payments for property related expenses	-	(913)
Payments for expenses and project costs	(16,968)	(28,362)
Income from placements with financial institutions received	1,721	8,257
Financing of projects, net	-	10,358
Placement and arrangement fees received	-	3,319
Advance operating lease rentals	-	(2,759)
<b>Cash flows from operating activities</b>	<b>(228,736)</b>	<b>189,919</b>
<b>INVESTING ACTIVITIES</b>		
Payment for acquisition of investment property	-	(39,962)
Expenditure on property and equipment	(1,297)	(19,807)
Payments for car park spaces	(2,758)	-
Proceeds from sale of property and equipment	92	-
Payments for acquisition of software	(126)	(1,147)
Purchase of investment securities	(5,277)	(2,205)
Advance for purchase of investment securities	-	(9,000)
Dividend and other income received	14	1,294
<b>Cash flows from investing activities</b>	<b>(9,352)</b>	<b>(70,827)</b>
<b>FINANCING ACTIVITIES</b>		
Bank financing (repaid) / received	(15,553)	41,878
Contribution by non-controlling interest	398	-
Board remuneration paid	(1,080)	(1,050)
<b>Cash flows from financing activities</b>	<b>(16,235)</b>	<b>40,828</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(254,323)</b>	<b>159,920</b>
Cash and cash equivalents at 1 January	298,946	139,026
<b>Cash and cash equivalents at 31 December</b>	<b>44,623</b>	<b>298,946</b>
Represented by:		
Cash and bank balances	33	1,074
Placements with financial and other institutions	44,590	297,872
	<b>44,623</b>	<b>298,946</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**  
for the year ended 31 December 2009

US\$ 000's

2009	Balance at 1 January 2009		Movements during the year					Balance at 31 December 2009				
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Bank's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No of units (000)	Average value per share US\$	Total US\$ 000's	Total % ownership
Company	-	-	190,000	-	-	-	-	-	-	-	190,000	N/A
Makkah Hills – Cayman Islands	-	-	190,000	-	-	-	-	-	-	-	190,000	N/A

2008	Balance at 1 January 2008		Movements during the year					Balance at 31 December 2008				
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Bank's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No of units (000)	Average value per share US\$ 000's	Total US\$ 000's	Total % ownership
Company	-	-	66,500	123,500	-	-	-	-	-	-	190,000	N/A
Makkah Hills – Cayman Islands	-	-	66,500	123,500	-	-	-	-	-	-	190,000	N/A
Funds accepted under restricted Wakala contracts	-	-	91,809	(92,525)	716	-	-	-	-	-	-	N/A
	-	-	158,309	30,975	716	-	-	-	-	-	190,000	N/A

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

**1 INCORPORATION AND PRINCIPAL ACTIVITY**

Global Banking Corporation B.S.C. (c) (the "Bank") was incorporated on 25 June 2007 in the Kingdom of Bahrain under Commercial Registration No.65708. The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board.

The principal activities of the Bank include investment banking services that comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

*Consolidated financial statements*

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together, "the Group").

The significant subsidiaries consolidated during the year include:

Name of the entity	% of holding	Place of incorporation	Date of incorporation	Nature of business
Global Energy Financial Services Company SPC	100%	Kingdom of Bahrain	18 May 2008	Financial investment and financial planning consultancy services
Diyafa Holdings Company WLL	90%	Kingdom of Bahrain	20 May 2009	Virtual offices and other related services

**2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group entities, except for the changes resulting from amendments made to accounting standards (refer note 2 (c)).

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards ('IFRS / IAS') and in compliance with the Bahrain Commercial Companies Law, 2001.

**(b) Basis of preparation**

The consolidated financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of trading investments and investment designated at fair value through profit or loss.

The Group classifies its expenses by the nature of expense method.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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2 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(c) **Standards, amendments and interpretations effective from 1 January 2009**

The following standards, amendments and interpretations, which became effective in 2009 and relevant to the Group:

**IAS 1 (revised), 'Presentation of financial statements'**

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Group has opted to present separate statements – an income statement and a separate statement of comprehensive income. Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements along with the required comparative information.

**Amendments to IFRS 7, 'Financial Instruments: Disclosures'**

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the group. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided (refer note 28).

**IFRS 8, 'Operating segments'**

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's lines of business comprise investment banking and property management.

From the current year, the Group presents its operating segment disclosures in accordance with IFRS 8 (refer note 29). Comparative segment information has been presented in conformity with the transitional requirements of the standard.

**Improvements to IFRS (May 2008)**

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

**(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(iii) Special purpose entities**

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 18.

**(e) Foreign currency transactions**

**(i) Functional and presentation currency**

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

**(iii) Group companies**

The other Group companies functional currencies are either denominated in US dollars or currencies that are effectively pegged to the US dollars, and hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

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**(f) Financial assets and liabilities**

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, trading investments, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, bank financing, and other payable balances.

**(i) Recognition and de-recognition**

All financial assets (except investment securities) and liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

**(ii) Classification of financial assets and liabilities**

The Group allocates financial assets to the following IAS 39 categories: financial assets carried at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Except for investment securities (refer note 2 (g)), the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

**(iii) Measurement principles**

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

*Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

*Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2009

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **Investment securities**

The Group classifies its investment securities, excluding investment in subsidiaries (refer note 2 (d)), in the following categories: investment carried at fair value through profits or loss, held-to-maturity and available-for-sale investments.

(i) **Classification**

*Investments carried at fair value through profit or loss* are financial assets that are held for trading or which upon initial recognition are designated by the Group as fair value through profit or loss.

An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.

The Group designates investment securities at fair value through profit or loss at inception only when it is managed, evaluated and reported on internally on a fair value basis. These include investments in a managed fund.

*Held-to-maturity investments* are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale. The Bank currently does not hold any held-to-maturity investments.

*Available-for-sale investments* are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in certain quoted and unquoted equity securities.

(ii) **Initial recognition**

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the profit or loss when incurred.

(iii) **Subsequent measurement**

Subsequent to initial recognition, investments carried at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the comprehensive income and presented in a separate fair value reserve within equity. When the available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of comprehensive income is transferred to the income statement.

Held-to-maturity investments are carried at amortised cost less any impairment allowances.

Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are carried at cost less impairment allowances.

(iv) **Fair value measurement principles**

Fair value for quoted investments is their market bid price.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Placements with financial and other institutions**

These comprise placements made under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

**(i) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, bank balances and short-term highly liquid assets (placements with financial and other institutions) with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

**(j) Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. The Group follows the cost model to measure its investment property and carries it at cost less accumulated depreciation and impairment losses, if any. Land is not depreciated. Building is depreciated over a period of 30 years.

**(k) Property and equipment**

Property and equipment comprise land, building and equipment held for own use. Equipment is stated at cost, less accumulated depreciation and impairment losses (if any). Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is computed using the straight-line method to write off the cost of the assets over their estimated useful lives ranging from three to five years. Land is not depreciated. Building is depreciated over a period 30 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**(l) Intangible assets**

Intangible assets comprise computer software acquired by the Group and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The intangible assets are amortised on a straight-line basis over 3 years, being the estimated useful life of the assets.

**(m) Impairment of assets**

The Bank assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Impairment of assets (continued)**

*Available-for-sale investments*

In the case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. In case of equity securities quoted in active markets, the Group considers a decline in value of 20% below cost or a decline in value that persists for more than 6 months as an indicator of impairment. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

*Other non-financial assets*

The carrying amount of the Group's other non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**(n) Bank financing**

Bank financing comprise Murabaha financing from a financial institution for acquisition of an investment property. Bank financing is initially measured at fair value plus transaction costs, and subsequently measured at its amortised cost using the effective profit rate method.

**(o) Finance expenses**

Finance expenses are capitalised if they are directly attributable to the acquisition of a qualifying asset. Capitalisation of finance expenses commences when the activities to prepare the asset are in progress and expenditures and finance expenses are incurred. Finance expenses are capitalised until the assets are substantially ready for their intended use and allocated between the investment property and self-occupied property based on their determined usage. Other finance expenses are recognised in the income statement.

**(p) Dividends and board remuneration**

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Share capital and reserves**

Ordinary shares are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares.

*Statutory reserve*

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

**(r) Restricted investment accounts**

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or an agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

**(s) Revenue recognition**

**Income from investment banking services** is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/contracts for each transaction.

**Placement and arrangement fees** are recognised when services are performed and income is earned.

**Income from placements with financial and other institutions** is recognised on a time-apportioned basis over the period of the related contract.

**Dividend income** from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

**Rental income** from investment property leased out under operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

**(t) 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 account where the Bank uses these funds for charitable means.

**(u) Zakah**

The Group is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Group is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Employee benefits**

**(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

**(ii) Post employment benefits**

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" under IAS 19 and any increase or decrease in the benefit obligation is recognised in the income statement.

**(w) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

**Judgements**

**(i) Classification of investments**

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss or held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (g)].

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

**3 CRITICAL ACCOUNTING ESTIMATES AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**  
*(continued)*

*Judgements (continued)*

**(ii) Special purpose entities**

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

**Estimations**

**(i) Impairment on available-for-sale investments**

Available-for-sale investments where fair values are not readily available and are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

**(ii) Impairment on receivables**

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation, level of subordination available to the Bank and the net realisable value of any underlying assets. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

**4 CASH AND BANK BALANCES**

	31 December 2009 (US\$ 000's)	31 December 2008 (US\$ 000's)
Cash	3	5
Bank balances	30	1,069
	<b>33</b>	<b>1,074</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**5 PLACEMENTS WITH FINANCIAL AND OTHER INSTITUTIONS**

	<b>31 December 2009 (US\$ 000's)</b>	<b>31 December 2008 (US\$ 000's)</b>
Wakala contracts	34,589	287,850
Commodity murabaha contacts	10,009	10,037
Less: Deferred profits	(8)	(15)
	<b>44,590</b>	<b>297,872</b>

**6 INVESTMENT SECURITIES**

Investment securities comprise

	<b>31 December 2009 (US\$ 000's)</b>	<b>31 December 2008 (US\$ 000's)</b>
Available-for-sale investments	67,252	23,780
Investments designated at fair value through profit or loss	4,310	-
Trading investments	239	202
	<b>71,801</b>	<b>23,982</b>

**a) AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2009 (US\$ 000's)</b>	<b>2008 (US\$ 000's)</b>
At 1 January	23,780	12,000
Acquisitions during the year	48,000	11,780
Provision for impairment during the year	(4,528)	-
<b>At 31 December</b>	<b>67,252</b>	<b>23,780</b>

Available-for-sale investments are private equity investments in projects promoted by the Group. Available-for-sale investments of US\$ 67,252 thousand (2008: US\$ 23,780 thousand) are carried at cost less impairment allowance in the absence of reliable measure of the fair value. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or at the time of initial public offerings.

During the year, the Bank recognised an impairment allowance of US\$ 4,528 thousand (2008: nil) on the available-for-sale investments. The impairment allowances has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**7 INVESTMENT PROPERTY**

Investment property comprise that portion of land and building let out under operating leases. The carrying value of the investment property is given below:

	Land (US\$ 000's)	Building (US\$ 000's)	2009 Total (US\$ 000's)	2008 Total (US\$ 000's)
<b>Cost</b>				
At 1 January	15,701	37,523	53,224	-
Additions during the year	-	-	-	53,224
<b>At 31 December</b>	<b>15,701</b>	<b>37,523</b>	<b>53,224</b>	53,224
<b>Depreciation</b>				
At 1 January	-	521	521	-
Charge for year	-	1,251	1,251	521
<b>At 31 December</b>	<b>-</b>	<b>1,772</b>	<b>1,772</b>	521
<b>Net book value at 31 December</b>	<b>15,701</b>	<b>35,751</b>	<b>51,452</b>	52,703

The fair value of the investment property at 31 December 2009 was US\$ 58,013 thousand (2008: US\$ 62,820 thousand). The fair value is determined during the year, by an external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. The valuation is prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield that reflects the inherent risk in the net cash flows is then applied to the net results to arrive at the property valuation.

**8 PROPERTY AND EQUIPMENT**

	Land (US\$ 000's)	Building (US\$ 000's)	Fixture and equipment (US\$ 000's)	Furniture (US\$ 000's)	Motor vehicles (US\$ 000's)	2009 Total (US\$ 000's)	2008 Total (US\$ 000's)
<b>Cost</b>							
At 1 January	4,399	10,512	5,978	1,087	96	22,072	246
Additions during the year	-	-	2,894	220	100	3,214	21,826
Disposals during the year	-	-	-	-	(126)	(126)	-
<b>At 31 December</b>	<b>4,399</b>	<b>10,512</b>	<b>8,872</b>	<b>1,307</b>	<b>70</b>	<b>25,160</b>	22,072
<b>Depreciation</b>							
At 1 January	-	146	574	92	26	838	27
Charge for the year	-	350	1,630	245	28	2,253	811
Disposals during the year	-	-	-	-	(22)	(22)	-
<b>At 31 December</b>	<b>-</b>	<b>496</b>	<b>2,204</b>	<b>337</b>	<b>32</b>	<b>3,069</b>	838
<b>Net book value at 31 December</b>	<b>4,399</b>	<b>10,016</b>	<b>6,668</b>	<b>970</b>	<b>38</b>	<b>22,091</b>	21,234
Capital work-in-progress	-	-	-	-	-	329	1,047
<b>Total</b>	<b>4,399</b>	<b>10,016</b>	<b>6,668</b>	<b>970</b>	<b>38</b>	<b>22,420</b>	22,281

The fair value of the land and building is not materially different from the carrying values.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**9 OTHER ASSETS**

	<b>31 December 2009 (US\$ 000's)</b>	<b>31 December 2008 (US\$ 000's)</b>
Subscription for investment	-	9,000
Prepayment for car park spaces	5,287	-
Advance operating lease rentals	-	2,759
Computer software and licenses, net	858	1,115
Project costs recoverable	278	1,069
Prepayments and other receivables	936	1,038
	<b>7,359</b>	<b>14,981</b>

**10 INVESTORS' FUNDS**

These represent funds of projects set-up or promoted by the Bank which are placed with the Bank pending utilisation by the projects concerned.

**11 BANK FINANCING**

Bank financing comprise murabaha financing obtained from a financial institution in 2008 for the purpose of acquisition of a property (refer note 7). The financing carries a profit rate of 2.50% over the bench mark rate (BIBOR) and is repayable in quarterly instalments over 4 years. The financing is secured by mortgage on both land and building and assignment of rent from the property.

**12 ACCRUALS AND OTHER LIABILITIES**

	<b>31 December 2009 (US\$ 000's)</b>	<b>31 December 2008 (US\$ 000's)</b>
Employee related accruals	630	5,871
Payables and other accruals	1,874	2,646
	<b>2,504</b>	<b>8,317</b>

**13 SHARE CAPITAL**

	<b>31 December 2009 (US\$ 000's)</b>	<b>31 December 2008 (US\$ 000's)</b>
<b>Authorised:</b>		
500,000,000 ordinary shares of US\$ 1 each	500,000	500,000
<b>Issued and subscribed:</b>		
250,000,000 ordinary shares of US\$ 1 each	250,000	250,000
<b>Paid up:</b>		
250,000,000 ordinary shares partly paid US\$ 0.695 each (2008: US\$ 0.625 each)	173,750	156,250

In the annual general meeting held on 22 February 2009, the shareholders resolved to increase the paid up capital of the Bank from US\$ 156.25 million to US\$ 173.75 million by capitalisation of retained earnings.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**14 (LOSS) / INCOME FROM INVESTMENT SECURITIES**

	<b>2009</b> (US\$ 000's)	<b>2008</b> (US\$ 000's)
Dividends received from available-for-sale investments	14	1,294
Change in fair value of Investments designated at fair value through profit or loss	(967)	-
Gain / (loss) on trading investments	37	(224)
	<b>(916)</b>	<b>1,070</b>

**15 STAFF COST**

	<b>2009</b> (US\$ 000's)	<b>2008</b> (US\$ 000's)
Salaries and benefits	8,588	13,586
Social insurance expenses	512	527
Other staff expenses	220	524
	<b>9,320</b>	<b>14,637</b>

**16 OTHER OPERATING EXPENSES**

	<b>2009</b> (US\$ 000's)	<b>2008</b> (US\$ 000's)
Premises costs	1,820	1,866
Other expenses	1,394	1,760
	<b>3,214</b>	<b>3,626</b>

**17 TOTAL FINANCE INCOME AND EXPENSE**

	<b>2009</b> (US\$ 000's)	<b>2008</b> (US\$ 000's)
Income from placements with financial and other institutions	1,721	8,257
Finance expenses	(2,172)	(1,344)
<b>Net finance (expense) / income</b>	<b>(451)</b>	<b>6,913</b>

**18 FUNDS UNDER MANAGEMENT**

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US\$ 689,767 thousand (2008: US\$ 722,900 thousand). During the year, the Bank has not charged any management fees for activities related to management of assets (2008: US\$ 2,620 thousand).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

**19 PROPOSED APPROPRIATIONS**

The Board of Directors proposes the following appropriations subject to the approval of the shareholders at the annual general meeting:

	2009 (US\$ 000's)	2008 (US\$ 000's)
Proposed dividend (note 13)	-	17,500
Board remuneration	-	1,080

**20 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

The Group's income from investment banking services is from an entity over which the Group exercises influence. Although the entity is considered a related party, the Group administers and manages the entity on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investment. The transactions with these entities are based on agreed terms in the private placement memorandum.

The significant related party balances and transactions (excluding compensation to key management personnel) included in these consolidated financial statements are as follows:

	Key management personnel (US\$ 000's)	Significant shareholders / entities In which directors are Interested (US\$ 000's)	Assets under management Including special purpose entities (US\$ 000's)	Total (US\$ 000's)
<b>31 December 2009</b>				
<b>Assets</b>				
Investment securities	-	12,402	54,850	<b>66,982</b>
Other assets	-	116	36	<b>152</b>
<b>Liabilities</b>				
Investors' funds	-	-	3,775	<b>3,775</b>
<b>Income</b>				
Income from investment banking services	-	-	4,956	<b>4,956</b>
Rental income from investment property	-	612	175	<b>787</b>
Provision for impairment	-	1,378	3,150	<b>4,528</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended 31 December 2009

20 **RELATED PARTY TRANSACTIONS** (continued)

	Key management personnel (US\$ 000's)	Significant shareholders / entities in which directors are interested (US\$ 000's)	Assets under management including special purpose entities (US\$ 000's)	Total (US\$ 000's)
<b>31 December 2008</b>				
<b>Assets</b>				
Investment securities	-	13,780	10,000	23,780
Receivable from investment banking services	-	-	42,975	42,975
Investment property	-	66,313	-	66,313
Other assets	-	169	10,069	10,238
<b>Liabilities</b>				
Investors' funds	-	-	223,269	223,269
<b>Income</b>				
Income from investment banking services	-	-	40,570	40,570
Income from investment securities	-	1,197	-	1,197
Rental income from investment property	-	339	-	339
<b>Commitments</b>				
Commitments to invest	-	-	21,000	21,000

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	2009 (US\$ 000's)	2008 (US\$ 000's)
Board remuneration	1,080	1,050
Board member fees	269	172
Salaries and other short-term benefits	1,768	1,892
Post employment benefits	47	31

21 **ZAKAH**

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2009 is US cents 0.40 (2008: US cents 0.70) for every share held.

22 **EARNINGS PROHIBITED BY SHARI'A**

During the year, there were no earnings from non-Islamic transactions that are prohibited by Shari'a (2008: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2009

**23 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.

**24 SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

**25 MATURITY PROFILE**

The table below shows the maturity profile of the Group's financial assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment.

<b>31 December 2009</b>	<b>Up to 3 months (US\$ 000's)</b>	<b>3 months to 6 months (US\$ 000's)</b>	<b>6 months to 1 year (US\$ 000's)</b>	<b>1 year to 3 years (US\$ 000's)</b>	<b>Over 3 years (US\$ 000's)</b>	<b>Total (US\$ 000's)</b>
<b>Assets</b>						
Bank balances	30	-	-	-	-	30
Placements with financial and other institutions	44,590	-	-	-	-	44,590
Investment securities	239	-	10,000	61,562	-	71,801
Other financial assets	582	-	-	-	-	582
<b>Total financial assets</b>	<b>45,441</b>	<b>-</b>	<b>10,000</b>	<b>61,562</b>	<b>-</b>	<b>117,003</b>

<b>Liabilities</b>	<b>Up to 3 months (US\$ 000's)</b>	<b>3 months to 6 months (US\$ 000's)</b>	<b>6 months to 1 year (US\$ 000's)</b>	<b>1 year to 3 years (US\$ 000's)</b>	<b>Over 3 years (US\$ 000's)</b>	<b>Total (US\$ 000's)</b>
Investors' funds	-	3,775	-	-	-	3,775
Bank financing	3,603	3,721	7,348	15,169	-	29,841
Other financial liabilities	551	-	-	-	-	551
<b>Total financial liabilities</b>	<b>4,154</b>	<b>7,496</b>	<b>7,348</b>	<b>15,169</b>	<b>-</b>	<b>34,167</b>
<b>Off-balance sheet items</b>						
Restricted investment accounts	-	-	190,000	-	-	190,000
Commitments	158	-	-	-	-	158

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25 **MATURITY PROFILE (continued)**

31 December 2008	Up to 3 months (US\$ 000's)	3 months to 6 months (US\$ 000's)	6 months to 1 year (US\$ 000's)	1 year to 3 years (US\$ 000's)	Over 3 years (US\$ 000's)	Total (US\$ 000's)
<b>Assets</b>						
Bank balances	1,069	-	-	-	-	1,069
Placements with financial and other institutions	297,872	-	-	-	-	297,872
Investment securities	202	-	-	23,780	-	23,982
Receivable from investment banking services	-	1,000	39,370	2,605	-	42,975
Other financial assets	-	-	1,663	-	-	1,663
<b>Total financial assets</b>	<b>299,143</b>	<b>1,000</b>	<b>41,033</b>	<b>26,385</b>	<b>-</b>	<b>367,561</b>

Liabilities	Up to 3 months (US\$ 000's)	3 months to 6 months (US\$ 000's)	6 months to 1 year (US\$ 000's)	1 year to 3 years (US\$ 000's)	Over 3 years (US\$ 000's)	Total (US\$ 000's)
Investors' funds	193,790	29,479	-	-	-	223,269
Bank financing	3,591	3,505	6,947	26,127	3,052	43,222
Other financial liabilities	1,254	-	-	-	-	1,254
<b>Total financial liabilities</b>	<b>198,635</b>	<b>32,984</b>	<b>6,947</b>	<b>26,127</b>	<b>3,052</b>	<b>267,745</b>
<b>Off-balance sheet items</b>						
Restricted investment accounts	-	-	-	190,000	-	190,000
Commitments	22,964	1,380	-	-	-	24,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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## 26 CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS

## a) Industry sector

	<b>Banks and financial institutions</b> (US\$ 000's)	<b>Real estate</b> (US\$ 000's)	<b>Others</b> (US\$ 000's)	<b>Total</b> (US\$ 000's)
<b>31 December 2009</b>				
<b>Assets</b>				
Cash and bank balances	30	-	3	33
Placements with financial and other institutions	44,590	-	-	44,590
Investment securities	239	67,252	4,310	71,801
Investment property	-	51,452	-	51,452
Property and equipment	-	15,736	6,684	22,420
Other assets	-	5,413	1,946	7,359
<b>Total assets</b>	<b>44,859</b>	<b>139,853</b>	<b>12,943</b>	<b>197,655</b>
<b>Liabilities</b>				
Investors' funds	-	3,775	-	3,775
Bank financing	29,841	-	-	29,841
Accruals and other liabilities	-	-	2,504	2,504
<b>Total liabilities</b>	<b>29,841</b>	<b>3,775</b>	<b>2,504</b>	<b>36,120</b>
<b>Off-balance sheet items</b>				
Restricted investment accounts	-	190,000	-	190,000
Commitments	-	-	158	158
<b>31 December 2008</b>				
<b>Assets</b>				
Cash and bank balances	1,069	-	5	1,074
Placements with financial and other institutions	297,872	-	-	297,872
Investment securities	202	23,780	-	23,982
Receivable from investment banking services	-	42,975	-	42,975
Investment property	-	52,703	-	52,703
Property and equipment	-	14,764	7,517	22,281
Other assets	584	12,877	1,520	14,981
<b>Total assets</b>	<b>299,727</b>	<b>147,099</b>	<b>9,042</b>	<b>455,868</b>
<b>Liabilities</b>				
Investors' funds	-	223,269	-	223,269
Bank financing	43,222	-	-	43,222
Accruals and other liabilities	-	-	8,317	8,317
<b>Total liabilities</b>	<b>43,222</b>	<b>223,269</b>	<b>8,317</b>	<b>274,808</b>
<b>Off-balance sheet items</b>				
Restricted investment accounts	-	190,000	-	190,000
Commitments	21,000	-	3,344	24,344

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26 **CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS (continued)**

b) **Geographic region**

Concentration is measured based on the location of the underlying operating assets and not based on the location of the investments. The Group's concentration exposure as at 31 December 2009 and 31 December 2008 is limited to GCC countries.

27 **COMMITMENTS AND CONTINGENCIES**

The commitments contracted in the normal course of business of the Group:

	<b>31 December 2009</b> (US\$ 000's)	<b>31 December 2008</b> (US\$ 000's)
Commitments to invest	-	21,000
Operating lease commitment	-	2,758
Capital commitments	158	586

*Performance obligations*

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2009 due to the performance of any of its projects.

28 **FINANCIAL INSTRUMENTS**

a) **CLASSIFICATION OF FINANCIAL INSTRUMENTS**

The classification of the financial instruments of the Group is as given below:

	<b>Available- for-sale</b> (US\$ 000's)	<b>Loans and receivables</b> (US\$ 000's)	<b>Fair value through profit or loss</b> (US\$ 000's)	<b>Others at amortised cost</b> (US\$ 000's)	<b>Total</b> (US\$ 000's)
<b>31 December 2009</b>					
<b>Assets</b>					
Bank balances	-	30	-	-	30
Placements with financial and other institutions	-	44,590	-	-	44,590
Investment securities	67,252	-	4,549	-	71,801
Receivable from investment banking services	-	-	-	-	-
Other financial assets	-	582	-	-	582
<b>Total financial assets</b>	<b>67,252</b>	<b>45,202</b>	<b>4,549</b>	<b>-</b>	<b>117,003</b>

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28 FINANCIAL INSTRUMENTS (continued)

a) CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

31 December 2009	Available-for-sale (US\$ 000's)	Loans and receivables (US\$ 000's)	Fair value through profit or loss (US\$ 000's)	Others at amortised cost (US\$ 000's)	Total (US\$ 000's)
<b>Liabilities</b>					
Investors' funds	-	-	-	3,775	3,775
Bank financing	-	-	-	29,841	29,841
Other financial liabilities	-	-	-	551	551
<b>Total financial liabilities</b>	-	-	-	<b>34,167</b>	<b>34,167</b>

31 December 2008	Available-for-sale (US\$ 000's)	Loans and receivables (US\$ 000's)	Fair value through profit or loss (US\$ 000's)	Others at amortised cost (US\$ 000's)	Total (US\$ 000's)
<b>Assets</b>					
Bank balances	-	1,069	-	-	1,069
Placements with financial and other institutions	-	297,872	-	-	297,872
Investment securities	23,780	-	202	-	23,982
Receivable from investment banking services	-	42,975	-	-	42,975
Other financial assets	-	1,663	-	-	1,663
<b>Total financial assets</b>	<b>23,780</b>	<b>343,579</b>	<b>202</b>	-	<b>367,561</b>

31 December 2008	Available-for-sale (US\$ 000's)	Loans and receivables (US\$ 000's)	Fair value through profit or loss (US\$ 000's)	Others at amortised cost (US\$ 000's)	Total (US\$ 000's)
<b>Liabilities</b>					
Investors' funds	-	-	-	223,269	223,269
Islamic financing	-	-	-	43,222	43,222
Other financial liabilities	-	-	-	1,254	1,254
<b>Total financial liabilities</b>	-	-	-	<b>267,745</b>	<b>267,745</b>

b) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than available-for-sale investments of US\$ 68,630 thousand (2008: US\$ 23,780 thousand) (note 6 (a)), the estimated fair values of the Group's other financial instruments are not significantly different from their carrying values.

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28 *FINANCIAL INSTRUMENTS (continued)*

**c) FAIR VALUE HIERARCHY**

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

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

2009	Level 1 (US\$ 000's)	Level 2 (US\$ 000's)	Level 3 (US\$ 000's)	Total (US\$ 000's)
Investment securities				
- Investments designated at fair value through profit or loss	4,310	-	-	4,310
- Trading investments	239	-	-	239
<b>Total assets</b>	<b>4,549</b>	<b>-</b>	<b>-</b>	<b>4,549</b>

29 **OPERATING SEGMENTS**

The Group has two distinct operating segments, Investment banking and Property management, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Investment banking:** The investment banking segment of the Group focuses on providing structuring opportunities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.
- **Property management:** This business unit primarily is involved management of real estate and related assets.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Bank classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities relate to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Bank does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 26 to the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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29 *OPERATING SEGMENTS (continued)*

The Group is presenting segment information for the first time and comparative information for 2008 has been presented in line with the current year presentation.

Information regarding the results of each reportable segment is included below:

	<b>Investment banking</b> (US\$ 000's)	<b>Property management</b> (US\$ 000's)	<b>Unallocated</b> (US\$ 000's)	<b>Total</b> (US\$ 000's)
<b>2009</b>				
External revenue	5,215	2,184	1,941	<b>9,340</b>
Segment result	(12,879)	(2,981)	(2,983)	<b>(18,843)</b>
Segment assets	72,079	56,811	68,765	<b>197,655</b>
Segment liabilities	4,705	30,137	1,278	<b>36,120</b>
<b><u>Other material items:</u></b>				
Finance income	-	-	1,721	<b>1,721</b>
Finance expenses	-	1,796	376	<b>2,172</b>
Depreciation	-	1,251	2,231	<b>3,482</b>
Provision for impairment	4,528	-	-	<b>4,528</b>
Commitments	-	-	158	<b>158</b>
Restricted investment accounts	190,000	-	-	<b>190,000</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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29 **OPERATING SEGMENT** (continued)

	Investment banking (US\$ 000's)	Property management (US\$ 000's)	Unallocated (US\$ 000's)	Total (US\$ 000's)
2008				
External revenue	43,843	1,093	8,257	53,193
Segment result	22,708	(2,394)	902	21,216
Segment assets	299,226	67,467	89,175	455,868
Segment liabilities	223,269	43,222	8,317	274,808
<u>Other material items:</u>				
Finance income	-	-	8,257	8,257
Finance expense	-	1,344	-	1,344
Depreciation	-	521	811	1,332
Provision for impairment	-	-	-	-
Commitments	21,000	-	3,344	24,344
Restricted investment accounts	190,000	-	-	190,000

30 **FINANCIAL RISK MANAGEMENT**

**Overview**

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, bank financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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30 *FINANCIAL RISK MANAGEMENT (continued)***Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk and Audit Committee ("RAC"), which is responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The RAC is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

The RAC submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The report also provides comments as to how risk factors are being addressed by the Group and the change in risk rating from the previous quarter. The Liquidity Risk Report measure the Bank's liquidity risk profile against policy guidelines.

**a. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's balances with banks, placements with financial and other institutions and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

**Management of credit risk**

The Board of Directors has delegated responsibility for the management of credit risk to the Risk and Audit Committee which is also responsible for oversight of the limits and guidelines set by the Board.

Risk is assessed on an individual basis for each receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit exposures are subject to regular reviews by the Risk Management Department.

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30 **FINANCIAL RISK MANAGEMENT (continued)**

The maximum credit risk exposure has been disclosed below:

**Exposure to credit risk**

	<b>Bank balances (US\$ 000's)</b>	<b>Placements with financial and other institutions (US\$ 000's)</b>	<b>Receivable from investment banking services (US\$ 000's)</b>	<b>Other financial assets (US\$ 000's)</b>
<b>2009</b>				
<b>Neither past due nor impaired</b>				
<b>Carrying amount</b>	30	44,590	-	582
<b>Past due but not impaired</b>	-	-	-	-
<b>Individually Impaired</b>	-	-	-	-
<b>Carrying amount</b>	<b>30</b>	<b>44,590</b>	<b>-</b>	<b>582</b>

	<b>Bank balances (US\$ 000's)</b>	<b>Placements with financial and other institutions (US\$ 000's)</b>	<b>Receivable from investment banking services (US\$ 000's)</b>	<b>Other financial assets (US\$ 000's)</b>
<b>2008</b>				
<b>Neither past due nor impaired</b>				
<b>Carrying amount</b>	1,069	297,872	39,370	1,663
<b>Past due but not impaired (above 180 days)</b>	-	-	3,605	-
<b>Individually impaired</b>	-	-	-	-
<b>Carrying amount</b>	<b>1,069</b>	<b>297,872</b>	<b>42,975</b>	<b>1,663</b>

The Group's credit risk on bank balances and placements with financial and other institutions is limited as these are placed with banks in GCC having good credit ratings. The other credit exposures have been evaluated on a case-by-case basis and the management has assessed that the exposures are currently performing and not impaired.

**Impaired receivables**

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables agreement(s).

**Concentration risk**

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 26.

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30 **FINANCIAL RISK MANAGEMENT (continued)**

**b. Liquidity risk**

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Management of liquidity risk**

The Board of Directors approves significant policies and strategies related to the management of liquidity. The Management reviews the liquidity profile of the Group on a regular basis and any material change in the Bank's current or prospective liquidity position is notified to the Board.

The ALCO supports the Board in managing liquidity by recommending policies, setting limits and guidelines and monitoring the risk and liquidity profile of the Group on a regular basis. The ALCO provides guidance for day-to-day management of liquidity, oversees the establishment of effective internal controls and ensures that the Group has adequate liquidity at all times.

The day-to-day management of the Group's liquidity is the responsibility of the Treasury Department. The Department ensures that adequate funds are available to meet the maturing obligations and growth in assets while cost is minimised. The Department ensures that all limits and guidelines set by the Board and ALCO are complied with and any adverse development is reported to the ALCO. The Department also obtains the exceptional approvals when required as per this policy and manages the relationship with other banks and financial institutions.

The Risk Management Department reviews the limits set on an ongoing basis and ensures that the concerned department is complying with all limits set as per this policy. The Risk Management Department ensures that any adverse development is reported to the people concerned. Whenever exceptional approvals are required, they are first subject to the review and approval of the Risk Management Department.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. Refer note 25 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					Total	Carrying amount
	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years		
<b>31 December 2009</b>							
<b>Financial liabilities</b>							
Investors' funds	-	3,775	-	-	-	3,775	3,775
Bank financing	3,603	3,721	7,348	17,439	-	32,111	29,841
Other financial liabilities	551	-	-	-	-	551	551
<b>Total financial liabilities</b>	<b>4,154</b>	<b>7,496</b>	<b>7,348</b>	<b>17,439</b>	<b>-</b>	<b>36,437</b>	<b>34,167</b>
<b>Off-balance sheet items</b>							
Capital commitments	158	-	-	-	-	158	-

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30 **FINANCIAL RISK MANAGEMENT (continued)**

*b. Liquidity risk (continued)*

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total	
31 December 2008							
Financial liabilities							
Investors' funds	193,790	29,479	-	-	-	223,269	223,269
Bank financing	3,973	3,882	7,684	28,903	3,375	47,817	43,222
Other financial liabilities	1,254	-	-	-	-	1,254	1,254
<b>Total financial liabilities</b>	<b>199,017</b>	<b>33,361</b>	<b>7,684</b>	<b>28,903</b>	<b>3,375</b>	<b>272,340</b>	<b>267,745</b>
Off-balance sheet items							
Capital commitments	22,964	1,380	-	-	-	24,344	-

**c. Market Risk**

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Exposure to profit rate risk**

Profit rate risk arises due to differences in timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly placements with financial and other institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The effective profit rates on the profit bearing financial instruments are given below:

	2009	2008
Placements with financial and other institutions	1.53%	3.13%
Bank financing	4.74%	5.61%

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market financing rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2009 (US\$ 000's)	2008 (US\$ 000's)
At 31 December 2009	± 145	± 2,547
Average for the period	± 723	± 2,086
Maximum for the period	± 1,258	± 3,936
Minimum for the period	± 145	± 586

**Exposure to foreign exchange risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Group does not have significant net exposures denominated in other foreign currencies as at 31 December 2009 and 31 December 2008.

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30 **FINANCIAL RISK MANAGEMENT (continued)**

c. **Market risk (continued)**

**Exposure to other market risks**

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The Group does not have significant exposure to listed equity instruments. The Group's exposure is detailed in note 6 to these consolidated financial statements.

d. **Operational risk**

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Bank is committed to the training of its staff. The Bank conducted Risk Control Self Assessment of Operational risk in all departments of the Bank to identify the Important Key Risk Areas and Key Risk Triggers.

31 **CAPITAL MANAGEMENT**

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is based on the Basel II and IFSB framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework. During 2009, the Bank was in compliance with the capital limits set by the regulator for the Bank.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board of Directors.

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

<b>Capital adequacy</b>	<b>2009</b> (US\$ 000's)	<b>2008</b> (US\$ 000's)
Total risk weighted assets	413,708	592,295
Tier 1 capital	146,337	181,059
Tier 2 capital	-	-
Total regulatory capital	146,337	181,059
<b>Total regulatory capital expressed as a percentage of total risk weighted assets</b>	<b>35.37%</b>	<b>30.57%</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**32 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION**

The following standards and interpretations have been issued by standard setters during 2009 and are mandatory for the Group's accounting for annual periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

**a. *International Financial Reporting Standards and Interpretations issued by the IASB***

• **IAS 27 Consolidated and Separate Financial Statements (amended 2008)**

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

• **IFRS 9 'Financial Instruments'**

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

• **Improvements to IFRSs (April 2009)**

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**32 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION (continued)**

**b. Financial Accounting Standards issued by AAOIFI**

- FAS 23 Consolidation (effective for annual periods beginning on or after 1 January 2010); and

The requirements of this standard is largely in line with the current policies followed by the Group for accounting of subsidiaries and the adoption of this standard is not expected to have any material impact on the consolidated financial statements.

The Group had not early adopted any new or amended standards in 2009.

**33 COMPARATIVES**

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.