Ithmar Annual Report Cover O:L.ai 3/16/10 10:45:33 AM

www.ithmaarbank.com

ITHMAAR BANK B.S.C.
C.R: 15210, P.O. Box 2820
10th Floor Addax Tower
Seef District, Kingdom of Bahrain
tel: +973 17 584000 **Fax:** +973 17 584017
email: info@ithmaarbank.com

ITHMAAR BANK ANNUAL REPORT 2009

'09 ANNUAL REPORT:

In a time of turbulence we maintained stability. In a time of uncertainty we were optimistic. When adversity reigned our **collective strength** prevailed.

بنك الإثمار
Ithmaar Bank

Ithmar Annual Report Cover O:L.ai 3/16/10 10:46:05 AM

Contents:

Financial Highlights

	2009	2008	2007	2006 (Restated)	2005
Net profit/(loss) (US$ 000)	(233,369)	85,162	188,310	181,050	37,576
Net profit/(loss) attributable to shareholders (US$ 000)	(235,003)	22,168	102,755	167,558	36,533
Total equity (US$ 000)	937,399	1,149,351	1,284,397	1,123,655	252,777
Total equity attributable to shareholders (US$ 000)	711,435	923,909	1,087,808	792,093	247,359
Book value per share (US cents) *	31.27	43.89	50.60	56.01	41.23
Earnings per share (US cents) *	(10.26)	0.95	5.79	11.10	6.09
Total assets (US$ 000)	5,213,861	5,380,426	4,078,789	3,318,755	442,348
Funds under management (US$ 000)	2,101,955	1,991,673	1,723,814	1,059,937	1,500,000
Return on average shareholders' equity	-28.74%	2.20%	10.93%	32.24%	15.82%
Return on average equity	-22.37%	7.00%	15.64%	26.31%	15.92%
Return on average assets	-4.41%	1.80%	5.09%	9.63%	8.57%
Return on average paid in capital	-42.85%	4.16%	23.07%	66.55%	24.36%
Cost to operating income ratio	146.95%	51.51%	41.27%	42.10%	68.66%
Cash dividends (US$ 000)	-	-	53,747	47,520	20,000
Cash dividends per share (US cents)	-	-	2.50	3.38	3.33
Stock dividends	-	10%	20%	-	-
Capital adequacy ratio * *	12.77%	14.41%	18.63%	29.52%	36.80%
Market price per share (US cents)	24	26	58	58	-
Price earnings multiple	-	27	10	5	-
Market price per share/Book value per share	0.77	0.59	1.15	1.03	-

* From 2006, numbers reflect the four-for-one share split.

** Capital adequacy ratio from 2007 is under Basel II regulations, whereas for previous years it was calculated under Basel I regulations.

Chairman's Message

In the name of Allah, most Gracious, most Merciful
On behalf of the Board of Directors, I am pleased to present the Annual Report of Ithmaar Bank, its subsidiaries and associates for the year ended 31 December 2009.

It has been, much as everyone had anticipated, another difficult and very challenging year for the global banking and financial services industry – and, throughout 2009, Ithmaar continued to remain focused upon protecting the group's assets and liquidity.

Ithmaar Bank concluded the year with a $235 million loss attributable to the shareholders. This compares with a $22.2 million net profit for 2008.

Our gross operating income, at $337 million, is mainly due to core retail banking income which remained stable in 2009, but our financial performance was impacted by lower income from investment banking activities and higher prudent impairment provisions of $207 million due to the challenging market conditions.

In October, Ithmaar announced plans for a comprehensive reorganisation with its wholly-owned subsidiary, Shamil Bank. The plans, which will see Ithmaar emerging as a premier Islamic retail bank, involve both banks pooling their resources to create a single, more efficient and significantly stronger retail-focused Islamic bank, under the Ithmaar brand. Ithmaar also announced capital raising initiatives which are expected to add up to $400 million to the Bank's capital.

In preparation for the implementation of these proposed plans, we have closely reviewed the carrying value of our assets across the group and have been conservative in taking impairment provisions.

My own appointment, by Ithmaar's largest Shareholder, DMI Trust, to the Bank's Board of Directors and my subsequent election, in December, as Chairman of the Board, as well as the appointment of former Chairman Khalid Abdulla-Janahi as Executive Vice Chairman, sets the stage for improved corporate governance within the group. This is particularly significant as we prepare for the proposed reorganisation and capital raising initiatives.

Following the implementation of these plans, Ithmaar will be well positioned for growth and, in 2010, the Bank will focus on strengthening its core business. Specifically, Ithmaar will focus on developing its retail banking, corporate banking, and treasury and financial institutions business units. This is part of a three-year strategic plan that was adopted towards the end of 2009. The plan focuses on developing our retail and corporate banking activities, as well as on fuelling our regional and international growth.

I take this opportunity, on behalf of the Ithmaar Board, to express my sincere appreciation to the management and staff of Ithmaar Bank, as well as those of our subsidiaries and associates around the world for their contributions in 2009. I also congratulate Mohamed Hussain on his appointment in September as Chief Executive Officer, and thank the Bank's former Chief Executive Officer, Michael P. Lee, for his valuable contributions. I wish both gentlemen continued success.

Perhaps most importantly, I wish also to thank all our stakeholders, in particular our customers, our shareholders and the Central Bank of Bahrain, for their continuing support.

Amr Mohammed Al Faisal

Chairman

CEO's Statement

In the name of Allah, most Gracious, most Merciful

I am pleased to report that, in 2009, we succeeded in meeting a board-level mandate to protect our balance sheet and carefully manage our liquidity position.

Although we reported a $235 million loss attributable to the shareholders of the Bank for 2009, the balance sheet continues to be strong with total assets at $5.2 billion as against $5.4 billion in 2008, and the funds under management are stable at $2.1 billion as against $2.0 billion in 2008.

In particular, our retail banking subsidiaries and associates have continued to perform well in 2009 despite challenging conditions. Shamil Bank, a wholly-owned subsidiary, as well as BBK (formerly known as Bank of Bahrain and Kuwait), in which we own a 25.4 percent stake, and Faysal Bank Limited (FBL), in which we own a 65.72 percent stake, have each reported profits in 2009.

The group has embarked upon an ambitious plan to expand our retail banking operations and has opened four new branches of Faysal Bank in Pakistan, taking the total number of branches to 133. Similarly, Shamil Bank has opened two new branches, taking the total number of branches to 11. Faisal Private Bank has decided to focus on developing a niche in Private Banking and Wealth Management in addition to developing sustainable trade finance business.

Our wholly-owned subsidiary, Ithmaar Development Company, has also continued to make remarkable progress with its flagship project, Dilmunia Island. In 2009, Ithmaar Development Company finalised the Island's Master Plan and completed all reclamation work. Work has started on the Island's infrastructure, and the Company has since started selling parcels of land to third-party sub developers while simultaneously planning to develop other parcels themselves.

In 2009, we also focused our efforts internally and worked to ensure that our operations were as efficient and as cost-effective as possible.

We restructured, for example, our management structure and consolidated our investment banking operations to bring together our Mergers and Acquisitions, Investment Banking and Private Equity business lines into one Group. This allows for a more focused, more efficient and, consequently, more effective approach to investment banking. In the same year, we also reinforced our Risk Management operations by further improving our risk-related policies and procedures.

In October, we announced plans for a comprehensive reorganisation with our wholly-owned subsidiary, Shamil Bank. This will further improve our liquidity, lower the risk profile and enhance shareholder value by amplifying existing synergies. In the same month, we also announced capital raising plans to offer a rights issue and launch a five-year Mandatory Convertible Sukuk, the Islamic equivalent of a mandatory convertible bond issue. These initiatives are expected to raise up to $400 million.

The reorganisation and capital raising plans were approved in November by the Bank's shareholders, and the Board of Directors has directed us to push ahead, with full force, towards completing them in the shortest time possible.

The Board appointed a high-level Steering Committee, comprising the Chief Executive Officers of Ithmaar and Shamil as well as the Chief Operating Officer of Ithmaar, to ensure that the transition, from a conventional investment bank into a retail-focused Islamic bank, is as efficient as possible. The Steering Committee expects the reorganisation to be achieved during the first quarter of 2010, subject to final approval by the Central Bank of Bahrain.

When the reorganisation and capital raising initiatives are completed, Ithmaar will be transformed into one of the region's largest, most efficient retail-focused Islamic banks – and we have every reason to be optimistic about the years ahead.

Towards the end of 2009, we developed and secured Board approval for a new three-year Strategic Plan (2010-2012) which focuses on strengthening our core business of retail banking.

Moving forward, following the anticipated reorganisation, Ithmaar will focus on strengthening its core business, comprising the following business units - retail banking, corporate banking, treasury and financial institutions. In terms of retail banking, Ithmaar will focus on enhancing its physical and electronic delivery channels, on expanding its range of products and services, and on continuously improving its customer services. Ithmaar will also work towards expanding its corporate banking business, both locally and regionally.

Mohamed Hussain

CEO & Member of the Board

Financial Review

This review incorporates the consolidated operating results and consolidated statement of financial position of Ithmaar Bank and its subsidiaries and associates.

Operating Results

The group has reported a net loss of $235 million attributable to the shareholders of the Bank, as compared to a net profit of $22.2 million for the previous year.

A stringent approach has been adopted by the group in its assessment of carrying values of assets. The group has recognized prudent impairment provisions amounting to $207 million on investments, loans and other assets for the year ended 31 December 2009, as compared to $52.9 million for the previous year. A significant portion of these impairment provisions are non-cash impairments.

It is encouraging to note that the contribution from our retail banking segment continues to be stable and provides a strong foundation for the group.

Operating Income

Our gross operating income for the year ended 31 December 2009 is $336.9 million and includes mainly income from our core retail banking activities, comprising retail, corporate, treasury and financial institutions, which continue to be stable. Our retail banking subsidiaries - Faysal Bank and Shamil Bank and associate – BBK, have performed satisfactorily and reported profits in these challenging market conditions.

The encouraging growth in the retail and commercial banking and treasury is evident from the increase in income from short-term deposits and income from investments in financings, by $16.4 million, from $247.2 million to $263.6 million. The significantly lower income from the investment banking activity during 2009 is mainly due to lower fees, realized gains on exits and in particular prudent approach taken by the Bank by not recognizing any unrealized gains from investment property which resulted in decline in the investment property income by $111.5 million, from $114.3 million to $2.8 million.

Distribution to investment account holders and borrowing costs increased by $45 million to $230.9 million, mainly due to higher profit payments on term financings, interbank and retail customers.

Expenses

The group continues to strictly monitor cost control measures. Taking into consideration the $5.3 million reversal of accruals in 2008 in respect of the employee incentive scheme, staff costs for the year, at $68.9 million, compare favourably with $62.7 million for the previous year. The 2009 staff costs include full year impact of 24 new branches set up in 2008 plus four new branches set up in 2009 by Faysal Bank. The general and administrative expenses are stable, at $52.8 million, as compared to $52.4 million for the previous year despite the new branches of Faysal Bank and Shamil Bank.

Depreciation and amortization expenses, at $34 million, are higher by $5 million as compared to the previous year, mainly due to full year impact of intangibles amortization in 2009 of certain new acquisition during 2008.

Provision for impairment of $207 million mainly comprises impairment provisions on loans and advances of $93.9 million and on available-for-sale investment securities of $87.6 million. The loans portfolio in European and Asian operations has also been impacted due to increased delinquencies coupled with fall in value of collaterals, resulting in an impairment provision. The provision for impairment on the available-for-sale investments is mainly attributable to significant decline in fair value of certain listed investments in the GCC and Asian stock markets and also unquoted equity funds.

Share of Profit from Associated Companies

The 2009 share of profits from associates, at $27.1 million, is higher by $20.8 million as compared to previous year. During 2008, the associates had recognised significant provision for impairment on their investments and loans and this had impacted their profits.

Taxation

The taxation charge for 2009, $0.6 million, is lower by $8.7 million mainly due to lower taxable profits in certain subsidiaries and tax write backs on previous assessment years.

Financial Review

Financial Position

The overall financial position continues to remain strong at $5.2 billion, as compared to $5.4 billion at 31 December 2008. Funds under management are stable at $2.1 billion as compared to $2.0 billion at 31 December 2008.

It is encouraging to note that customer current accounts and customer investment accounts, totalling $2.2 billion, have increased by $0.3 billion, as compared to $1.9 billion at 31 December 2008. During 2009, the group had repaid $253 million of its term and inter bank borrowings, thereby reducing the total outstanding amount to $1.8 billion.

Equity

The equity attributable to the Bank's shareholders, at $711 million, has decreased by $212.9 million from $923.9 million at the end of 2008. The major reason for the decrease is the loss for the year.

Capital Adequacy Ratio

The capital adequacy ratio as at 31 December 2009 is 12.77% (2008: 14.41%). The decrease in capital adequacy ratio is mainly due to reduction in eligible capital due to the loss for the year.

Board of Directors

The Board presently has ten Directors, including five independent Directors.[*] The number of Directors on the Board is established by the Bank's Memorandum and Articles of Association. The Board of Directors is headed by a Chairman.

His Royal Highness Prince Amr Mohammed Al Faisal

Chairman

Non Executive Member from 5 November 2009, Chairman from 17 December 2009

HRH Prince Amr has more than 24 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering. He is a member of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMI Trust), Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt) and Chairman of the Board of Directors of Al Daleel Information Systems. HRH Prince Amr is also Founder and Director of the Red Sea Bureau for Engineering Consultancy (Jeddah), Al Daleel Company For Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company For Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce. He is a fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts degree in Architecture from King Abdulaziz University, Saudi Arabia.

Khalid Abdulla-Janahi

Executive Vice Chairman

Mr. Janahi, who has more than 25 years of banking experience, is also Group Chief Executive of Dar Al-Maal Al-Islami Trust (DMI Trust), Chairman of Faisal Private Bank (Switzerland), DMI Administrative Services, Islamic Investment Company of the Gulf (Bahamas) Ltd., Solidarity Group and Naseej. He is a member of the Board of Directors and Chairman of the Executive Committee of BBK (formerly known as Bank of Bahrain and Kuwait) and a member of the Board of Faisal Islamic Bank of Egypt. He is a Member of the Board of the Centre for International Business and Management (CIBAM) at the University of Cambridge, UK. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Janahi holds a Bachelor of Science degree in Computer Science and Accountancy from the University of Manchester, UK.

Tunku Dato' Ya'acob Bin Tunku Abdullah

Independent Board Member

Prince Ya'acob is Chairman of MAA Holdings Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Ya'acob worked for 19 years for Malaysian Assurance Alliance Berhad, where his last position was as Chairman. He also worked as an auditor at Price Waterhouse London (UK) and Malaysia. Prince Ya'acob holds a Bachelor of Science degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

[*]Kenneth C. Borda, an independent Board Member, resigned as of 28 February 2010

Board of Directors

Abdulhameed M. Abou Moussa

Non Executive Board Member

Mr. Abou Moussa is Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior to his current position, Mr. Abou Moussa worked in the Central Bank of Egypt for 16 years. He holds a Bachelor of Science degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy. He is a Member of the coordinating council that determines the monetary and fiscal policy objectives of the Egyptian economy.

Shaikha Hissah bint Saad Al-Sabah

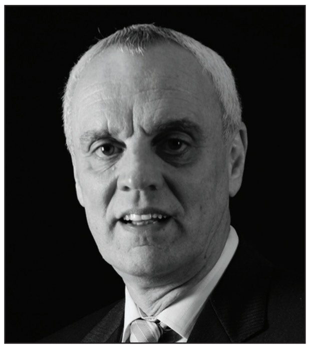
Independent Board Member

Shaikha Hissah, who has more than ten years of banking experience, is President of the Council of Arab Businesswomen. She has had a long history in the Kuwait Government and private voluntary service, including: Department of Medical Services, Research and Development, Military Hospital, Ministry of Defence, State of Kuwait; Adviser, Defence Minister's Office, State of Kuwait; Chairperson of the Narcotics Control Committee; Kuwait Volunteers Women Society; Kuwait Businesswomen Committee; Arab African Women's Council; Honorary Chairperson, Arab Federation of Non-Government Societies for Addiction Prevention; Deputy Chairperson, Kuwait Narcotics Control Committee; and Member, National Committee for Narcotics Control and International Council of Alcohol and Addiction. Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon and has a Doctorate in Humane Letters.

Kenneth C. Borda

Independent Board Member
Resigned 28 February 2010

Mr. Borda was formerly the Chief Executive Officer of Deutsche Bank AG, Middle East and North Africa. He retired in April of 2007. He had also acted as Chairman of Deutsche Bank Asia Pacific (excluding Japan). During an 18 year career with Deutsche Bank, he held several key management posts, including Regional CEO Asia Pacific, based in Hong Kong, and CEO Australia and New Zealand, based in Sydney. Mr. Borda was a Board Member of SFE Corporation (the listed national futures exchange in Australia) for more than five years until its acquisition by Australian Stock Exchange Limited in July 2006. In February 2007, he joined the Board of Ithmaar, as well as the boards of both Fullerton Funds Management, the asset management arm of Temasek, in Singapore, and the Australian oil and gas exploration and production company, Santos Limited. In July 2007, Mr. Borda joined the Board of Directors of Leighton Contractors Ltd in Sydney, in August 2008 he joined the Talent 2 Ltd Board of Directors and in February 2009 he joined the Asia Pacific Advisory Board of Aviva Plc.



Sheikh Mohammed Youseef El Khereiji

Independent Board Member

Sheikh Mohammed, who has more than ten years of banking experience, comes from one of the leading merchant families in the Kingdom of Saudi Arabia. He studied in Switzerland and the United Kingdom and graduated with an MBA in Marketing and Finance. He started his career as a consultant and financial adviser for, inter alia, Prudential Bache and BNP Paribas in Geneva. He is currently Chairman of Global Investment and Marketing SA- Geneva –Global Hotels and Resorts BV – Marriott European Holding – and Creative Investment and Marketing SA. He is Chief Financial Officer of El Khereiji Group – Chairman of Sage Capital Management Group in Bahrain. Sheikh Mohammed is also Honorary Chairman of the Swiss Red Cross as well as its international Ambassador, and is an active contributor to many charitable entities. He holds many other prominent executive Board positions in Europe and the Middle East.

Board of Directors

Mohamed Hussain

CEO and Executive Member of The Board

Mr. Hussain, who was appointed Ithmaar Bank Chief Executive Officer in September 2009, has been a Member of the Ithmaar Board of Directors since June 2008. He is also a member of the Bank's Executive Committee. Mr. Hussain, who has 33 years of banking experience, is responsible for overseeing the Bank's holdings in subsidiaries, associates and strategic investments, as well as the group's Treasury, Private Banking and Risk Management. Prior to his current appointment, Mr. Hussain was Chief Executive and Member of The Board of Shamil Bank (Bahrain), which is wholly-owned by Ithmaar Bank. A seasoned banker who joined Shamil Bank in 1998, Mr. Hussain previously held other senior positions at the Bank, including Deputy Chief Executive. He was also General Manager of Islamic Investment Company of the Gulf (E.C.) in Bahrain prior to its merger with Faysal Islamic Bank of Bahrain (E.C.) in 2000. His previous positions included Senior Vice President, Smith Barney Inc. Bahrain; Director, Marketing and Corporate Finance, Bahrain International Bank; and Assistant Vice President, Gulf International Bank. He currently serves on the boards of BBK (formerly known as Bank of Bahrain and Kuwait), Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), Faisal Islamic Bank of Egypt, First Leasing Bank, Solidarity, Naseej and Ithraa Capital (Kingdom of Saudi Arabia). Mr. Hussain, a Bahraini National, holds a Bachelor of Arts degree in Economics and Finance.

Michael P. Lee

Executive Board Member

Mr. Lee has been selected as the Chief Executive Officer of InfraCapital Holdings, which is to be the GCC's first investment banking group specializing in the provision of tailored infrastructure development and finance. Immediately prior to this new role, Mr. Lee was CEO and Member of the Board of Ithmaar Bank. Mr. Lee has more than 35 years of experience as an international investment banker serving multilateral, governmental, corporate, financial institutional and high net worth clients. Immediately prior to joining Ithmaar, he was Deputy Chairman and Managing Director of Emerging Markets Partnership (Bahrain) BSC(c), the general partner and manager of the pioneering, $730.5 million Islamic Development Bank (IDB) Infrastructure Fund. From 1979-81, he was Director of Corporate Development, Merrill Lynch International & Co., New York and, from 1981-84, he headed Merrill Lynch's international investment banking group responsible for financial institutions and private placements, becoming a Managing Director of Merrill Lynch-White Weld Capital Markets Group. For the period 1984-88, Mr. Lee was the Chief Executive Officer of Dean Witter Capital Markets-International Ltd., London, and was also a Managing Director-Corporate Finance of Dean Witter Reynolds Inc., New York. In 1992, Mr. Lee became a senior adviser at Bahrain's Ministry of Finance & National Economy, providing inter alia strategic advice on the development and regulation of the Bahrain International Financial Centre and on investments. Mr. Lee holds an MA (Honours) degree in Philosophy, Politics and Economics from the University of Oxford.

Khalil Nooruddin

Independent Board Member

Mr. Nooruddin is the founder and the Managing Partner of Capital Knowledge, a financial consultancy and training company based in Bahrain. Mr. Nooruddin is also Vice Chairman of Alpine Wealth Management. Before establishing Capital Knowledge, he served as the Director of the Bahrain Institute of Banking and Finance until he resigned in 2007. Prior to assuming that assignment in 2004, Mr. Nooruddin worked for 20 years as a corporate and investment banker. His last assignment in this field was with Investcorp Bank, where he served as a Member of the firm's Management Committee for 10 years. Before Investcorp, he served as a corporate banker with Chase Manhattan Bank in Bahrain and as an investment banking professional with Chase Investors Management Corporation and UBS Asset Management in London and Zurich. Before his banking career, he worked as an operations research analyst with Bahrain Petroleum Company (Bapco) in Bahrain and Caltex Petroleum Corporation in New York. Mr. Nooruddin is a Chartered Financial Analyst and holds a Master of Science in Quantitative Analysis from Stern Business School, New York University and a Bachelor of Science in Systems Engineering from the University of Petroleum and Minerals, Kingdom of Saudi Arabia. He is an active member of several civil and professional societies in the Kingdom of Bahrain.

Ziad Hasan Rawashdeh

Non Executive Board Member

Resigned 5 November 2009

Mr. Rawashdeh, who has more than 30 years of banking experience, is the Group Chief Operating Officer of DMI, Vice Chairman of Faisal Private Bank (Switzerland) SA and Vice Chairman of Islamic Investment Company of the Gulf (Bahamas). He is a Board Member of Solidarity and Faisal Islamic Bank of Egypt. He is also Chairman or a Board Member of several other DMI Group subsidiaries. Previous positions include Chief Executive Officer of Faisal Private Bank (Switzerland) SA and Managing Director of Islamic Investment Company of the Gulf (Bahamas) as well as several key positions within the DMI Group and at other financial institutions. A Fellow of the Arab Institute for Banking and Financial Studies, Mr. Rawashdeh holds a Bachelor of Science degree in Economics.

Meetings

In accordance with the Bank's Articles of Association, the Board of Directors meets at least four times a year and the Board expects each Director to attend at least 50 percent of all Board meetings and meetings of committees on which they serve.

Executive Management

The Executive Management is responsible for operating the Bank in an effective, ethical and legal manner designed to produce value for the Bank's shareholders consistent with the Bank's business plans, policies and standards.

Mohamed Hussain
CEO AND MEMBER OF THE BOARD
Please refer to Mr. Hussain's biographical details in the Board of Directors section.

Ahmed Abdul Rahim
CHIEF OPERATING OFFICER
MBA, University of Glamorgan, Wales.
Associate in Financial Accounting,
Institute of Financial Accountants, London.
Joined Ithmaar in 2007.

Abdul Hakim Khalil Al-Mutawa
MANAGING DIRECTOR -
PRIVATE BANKING AND WEALTH MANAGEMENT GROUP
MBA, University of Bahrain.
Bachelor in Engineering, University of Texas at Austin.
Joined Ithmaar in 2008.

Carolyn Prowse
MANAGING DIRECTOR - HEAD OF INVESTMENT BANKING GROUP
BA(Hons) degree in Chemistry, St. Anne's College,
University of Oxford.
Joined Ithmaar in 2007.

Ravindra Khot
MANAGING DIRECTOR - CHIEF FINANCIAL OFFICER
Fellow Member, Institute of Chartered Accountants of India.
Joined Ithmaar in 2007.

Tawfiq Mohammed Al-Bastaki
MANAGING DIRECTOR - CHIEF RISK OFFICER
BSc. degree in Islamic Banking, University College of Bahrain.
Joined Ithmaar in 2008.

Scott A. Creswell
GENERAL COUNSEL AND COMPANY SECRETARY
Master's of Arts (U.S. History), University of West Florida.
Juris Doctorate (Law), John Marshall Law School, Chicago, Illinois.
Joined Ithmaar in 2006.

Mohammad Ali
GROUP CHIEF INTERNAL AUDITOR
MBA, Western Illinois University.
Member, American Institute of Certified Public Accountants (AICPA).
Joined Ithmaar in 2007.

Management Review of Operations

Strategic Plan

Towards the end of 2009, the Board of Directors approved a new three-year Strategic Plan (2010-2012). The plan focuses on developing Ithmaar's core businesses of retail banking, corporate banking, treasury and financial institutions while continuing its investment banking activities on a very selective basis.

The retail banking strategy will focus on enhancing the Bank's physical and electronic delivery channels as well as on expanding its range of products and services. To do so, Ithmaar will substantially augment its Product Development and Management team and establish a dedicated team to ensure quality.

The corporate banking strategy is to substantially enhance its team of Relationship Managers which will focus on serving large corporations as well as small and medium sized enterprises. Ithmaar will also focus on developing its trade finance operations as well as other unfunded business such as issuing Letters of Credit (LCs) in support of local market requirements.

In terms of financial institutions and treasury, Ithmaar will expand and further enhance its relationships with banks and financial institutions both regionally and internationally. Ithmaar will also augment its Treasury team in order to fully support its liquidity management and the expanded business in other areas of the Bank.

Plans for a comprehensive Ithmaar-Shamil reorganisation

In October, Ithmaar announced plans for a comprehensive reorganisation with its wholly-owned subsidiary, Shamil Bank. The plans, which will see Ithmaar Bank emerging as a premier Islamic retail bank, involve both banks pooling their resources to create a single, more efficient and significantly stronger retail-focused Islamic bank, under the Ithmaar brand.

The plans were announced following approval of the Ithmaar Board of Directors and the Central Bank of Bahrain's *No Objection*. In November, Ithmaar's shareholders approved, during an Extra-ordinary General Meeting (EGM), the proposed reorganisation, and the Board of Directors said they would push ahead, with full force, towards completing it in the shortest time possible.

The proposed Ithmaar-Shamil reorganisation will streamline Ithmaar's structure and work process, dramatically improving the Bank's efficiency and enhancing shareholder value by amplifying existing synergies. It will also further enhance Ithmaar's liquidity, lower its risk profile and bolster its regulatory capital while facilitating higher standards of corporate governance. This will bring tangible, almost immediate, benefits to all Ithmaar's stakeholders – including its customers, as well as its shareholders and, in broader terms, Bahrain's banking and finance industry.

The proposed reorganisation will, in effect, turn Ithmaar Bank into an Islamic bank with a retail license. The assets, liabilities and businesses of Shamil will be acquired by Ithmaar. Following the proposed reorganisation, Ithmaar will undertake retail banking activities locally and regionally while maintaining its investment activities.

The proposed reorganisation and streamlining processes will enhance the existing Islamic banking expertise manifold. It will also mark an important step towards fulfilling long-standing commitments to developing group synergies, to serving the needs of the real economy and, perhaps most importantly, to maintaining a strict standard of ethics and Sharia compliance.

Capital raising plans

In October, Ithmaar announced its capital raising initiatives, which include a rights issue and the launch of a five-year Mandatory Convertible Sukuk, the Islamic equivalent of a mandatory convertible bond issue. The proposed plans will further strengthen Ithmaar's capital base and liquidity position. The capital raising initiatives are subject to approval from the regulatory authorities in the Kingdom of Bahrain.

At the November EGM, Ithmaar shareholders approved plans to increase the authorised capital to $2 billion and also approved the capital raising initiatives which are expected to raise up to $400 million thereby substantially increasing shareholder equity. When the proposed reorganisation and capital raising initiatives are completed, Ithmaar will have been transformed into one of the region's largest, most efficient retail-focused Islamic banks.

Subsidiaries & Associates Overview

Shamil Bank

Shamil Bank is a leading Islamic commercial and investment bank based in Bahrain. The Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions.

Shamil's operations are organised along three major business lines: retail banking, corporate banking and investment banking. Shamil's activities conform to the principles of Islamic Sharia and are conducted through permissible Islamic modes such as Murabahas, Ijaras, Mudarabas, Musharakas and Istisna.

On the funding side, major sources of funds are customer deposits in the form of customers' current accounts and profit and loss sharing unrestricted investment accounts. An additional funding part comes from financial institutions in the form of interbank deposits.

Moreover, Corporate Banking has a strong position in the structured finance business. The department has expanded its deal-origination capabilities through the hiring of experienced bankers and improving relationship with international financial institutions that are active in the syndications market.

Investment banking is active in the areas of funds management, corporate finance and corporate investment. The fund management is a core business covering a wide array of activities and assets including leasing, real estate, private equity, infrastructure projects, equities and syndicated financing.

Currently, Shamil's network includes 11 branches across Bahrain as well as a representative office in Doha, Qatar.

Shamil Bank is a wholly-owned subsidiary of Ithmaar Bank.

www.shamilbank.net

Solidarity Group

Solidarity is one of the largest takaful (Islamic insurance) companies in the world. The Company provides general and family takaful products and services, which comply with the principles of the Islamic Sharia, around the globe.

In 2008, Solidarity completed a full-fledged corporate restructuring campaign to ensure it would remain firmly focused on efficiently achieving its long-term objectives. It has established two fully owned subsidiaries in Bahrain, Solidarity General Takaful and Solidarity Family Takaful to strengthen its operations. The operations have established a sizeable market share in both the lines of business by generating healthy growth.

Solidarity Group continued its strategic positioning and consolidation especially in the markets of Jordan, Saudi Arabia, Malaysia and Egypt. The Group worked towards further reinforcing its position in First Insurance Company, Jordan, by increasing its stake from 19% to 26%; where the company has become an associate of the Solidarity Group. Solidarity Family Takaful Egypt (SFTE), a wholly owned subsidiary, commenced operations in 2009 and the initial response and business momentum are very encouraging. The Group's joint venture, Solidarity Saudi Takaful Company (under formation) in the Kingdom of Saudi Arabia has received approval for incorporation by the Council of Ministers, and is well in progress towards final set up.

Ithmaar banking group owns 33.8 percent of Solidarity.

www.solidarity.com.bh

First Leasing Bank (FLB)

First Leasing Bank (FLB) is the first bank in the GCC dedicated to the introduction and expansion of middle market equipment leasing in the region. FLB provides Sharia-compliant finance and operating leasing solutions for a very diverse set of asset classes and industries, including, but not limited to, construction and government supported infrastructure, manufacturing, medical, information technology, food processing, printing, telecommunications and transportation.

FLB is a recognised leader in the Sharia-compliant equipment leasing market. FLB presently covers markets in Bahrain, UAE, Kuwait, Qatar and Oman.

Ithmaar banking group owns 31 percent of First Leasing Bank.

www.1stleasingbank.com

Subsidiaries & Associates Overview

BBK (formerly Bank of Bahrain and Kuwait)

BBK was established on 16th March 1971 in accordance with the Amiri decree and started operations a year later.

BBK has grown to become one of the largest commercial banks in Bahrain. The bank has a strong regional presence. In addition to the 18 domestic branches that it has in Bahrain, it also has a branch in Kuwait, as well as two branches in India and a representative office in Dubai, United Arab Emirates.

In the last few years, BBK has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. BBK takes pride in being able to provide a full range of lending, deposit, treasury and investment services to various sectors of the domestic and regional markets, using state-of-the-art technology. BBK plays a major role in financing infrastructural and industrial projects in Bahrain and the GCC, creating products and services that cater to the needs of individual borrowers, depositors and investors. BBK provides its services to Bahrain's Government, medium and small business sectors, as well as individuals.

Ithmaar banking group owns 25.4 percent of BBK.

www.bbkonline.com

Sakana Holistic Housing Solutions

Sakana is an Islamic financing company regulated by the Central Bank of Bahrain with an authorised capital of BD100 million and paid-up capital of BD20 million. Sakana is a 50:50 joint venture between BBK and Shamil Bank.

Sakana was established in 2005 and began commercial operations in December 2006. Sakana provides housing solutions, giving both resident and non-resident homebuyers an opportunity for home ownership through a mortgage finance model based on Islamic Sharia principles. Sakana has broadened its holistic focus by adding property consulting and property development to its portfolio.

Ithmaar banking group controls 62 percent of Sakana.

www.sakanaonline.com

Ithmaar Development Company Limited (IDC)

Ithmaar Development Company Limited (IDC) is the developer and manager of Ithmaar Bank's major development projects including real estate projects, infrastructure projects, resorts, hotels, medical facilities and commercial buildings. IDC's activities include management and development of property, development management services and facility management services, and the Company intends to provide real estate consultancy services.

IDC's announced portfolio of projects includes the Dilmunia at Bahrain Health Island project, Light of Bahrain, Reflections of Bahrain and Dilmunia at Essaouria, Morocco. The total value of these prestigious developments is estimated at more than $3 billion.

The $1.6 billion Health Island, Dilmunia, entails the creation of international standard health and wellness facilities in a resort-style environment. The project is being constructed on a man-made island off the north-east coast of Bahrain and will include a wellness hospital, a women and children centre, a state-of-the-art diagnostic centre, a nutrition/diabetes centre, an aesthetic medicine centre, an alternative medicine centre and a sports medicine centre. The project will also include deluxe spas and boutique hotels as well as residential clusters, commercial facilities and recreational amenities. As of May of 2009, all reclamation works was completed, a memorandum of understanding for the sale of some residential plots to developers was signed and an initial agreement was signed for the development of one of the themed hotels.

IDC is a wholly-owned subsidiary of Ithmaar Bank.

www.dilmunia.com

Subsidiaries & Associates Overview

Faysal Bank Limited (FBL)

Faysal Bank started operations in Pakistan in 1987, first as a branch set-up of Faysal Islamic Bank of Bahrain and then, in 1995, as a locally incorporated Pakistani bank under the present name of Faysal Bank Limited. On January 1, 2002, Al Faysal Investment Bank Limited, another group entity in Pakistan, merged into Faysal Bank Limited which resulted in a larger, stronger and much more versatile institution. FBL is a full-service banking institution offering consumer, corporate and investment banking facilities to its customers. FBL's widespread and growing network of 133 branches in the four provinces of the country, together with its corporate offices in major cities, provides efficient services in an effective manner.

Ithmaar banking group owns 65.72percent of FBL.

www.faysalbank.com

Faisal Private Bank (FPB)

Faisal Private Bank is the first Swiss Bank exclusively dedicated to the provision of banking services in accordance with the principles of Islamic finance. The Bank was originally established in 1980 as Sharia Investment Services SA in Geneva.

In 1990, Faisal Finance (Switzerland) SA was born. In 2002, it obtained the Securities Dealer License under the terms of the Swiss Federal Law on Stock Exchange and Trading in Securities. In October 2006, FPB was authorized to operate as a bank in Switzerland.

FPB is a wholly-owned subsidiary of Ithmaar banking group.

www.faisalprivatebank.com

Corporate Governance

The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

The Board's adherence to best corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness and social responsibility. Moreover, the Bank's corporate governance policies are designed to lay a solid foundation for management and oversight, promote ethical and responsible decision making, safeguard integrity in financial reporting, make timely and balanced disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interest of stakeholders.

Shareholders' Rights

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the annual audit fees and appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meeting.

Bank Administration

The Bank is administered by the Board of Directors.

Board's Responsibilities

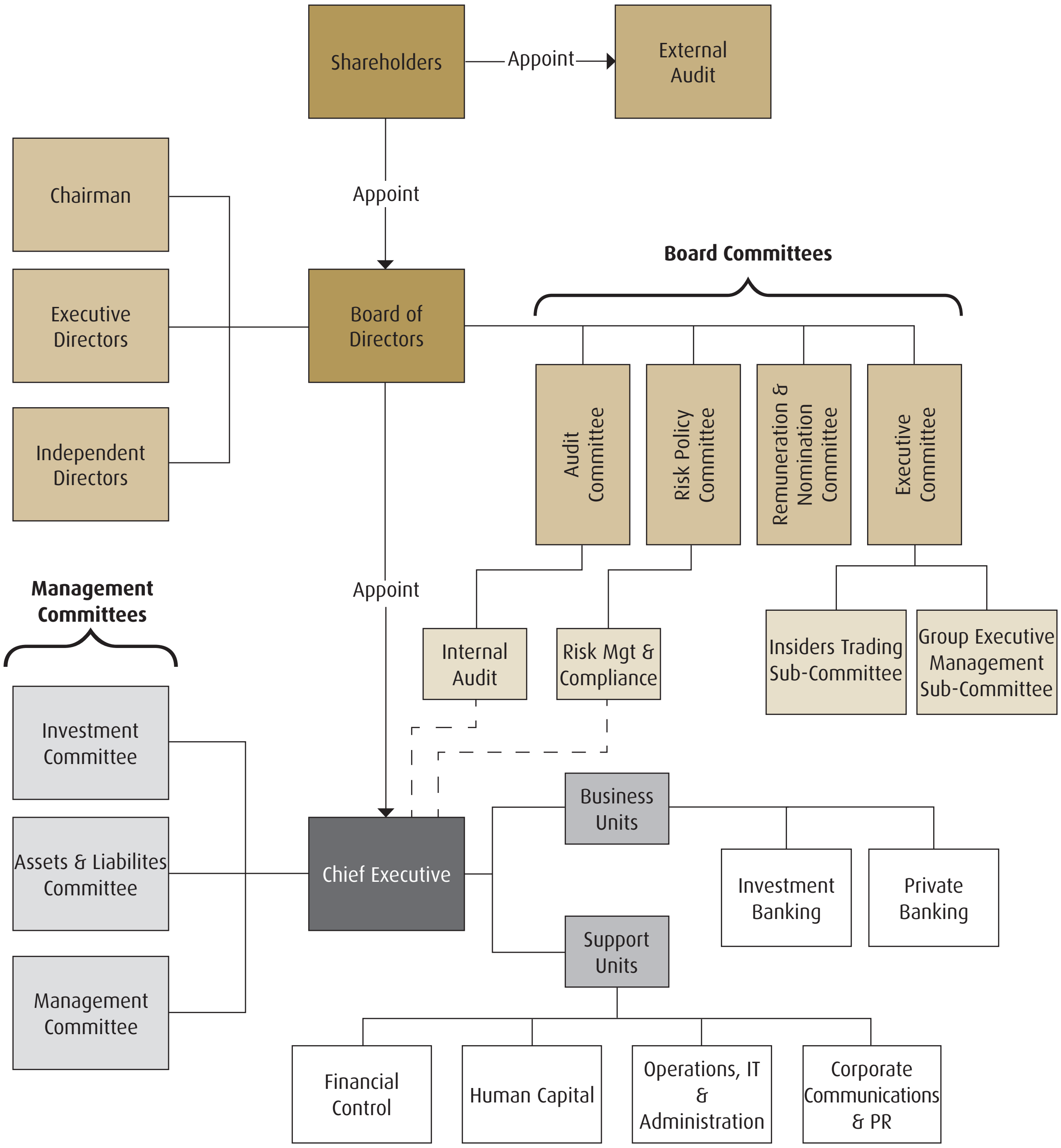
The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction, and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

Term

The Members of the Board of Director are elected for a three-year term.

Corporate Governance

Ithmaar's Overall Business Organisation Structure



Board Committees:

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit Committee

The Audit Committee is appointed by the Board to assist the Board in reviewing the integrity of the Bank's financial reporting; overseeing the selection and compensation of the external auditor for appointment and approval at the shareholders' meeting; monitoring the external auditor's qualifications and independence; reviewing the activities and performance of the Bank's internal audit function and external auditors; and reviewing the compliance by the Bank with legal and regulatory requirements including all relevant laws, regulations, codes and business practices.

- **Abdulhameed M. Abou Moussa,**
  CHAIRMAN and MEMBER (Chairman as of 5 November 2009)
- **Sheikh Mohammed Youseef El Khereiji,**
  MEMBER (as of 5 November 2009)
- **Khalil Nooruddin,**
  MEMBER
- **Ziad Hasan Rawashdeh,**
  (resigned as of 5 November 2009)

Executive Committee

The Executive Committee, acting on behalf of the Board, provides Board oversight of the Bank's strategic transaction planning and activities; approves transactions for which the Board has delegated authority to the Executive Committee within the parameters of the Limits of Authority; makes recommendations to the Board regarding transactions not within the parameters of the Limits of Authority of the Executive Committee; and evaluates the Bank's financial strategies and policies.

- **Khalid Abdulla-Janahi,**
  CHAIRMAN
- **Michael P. Lee,**
  MEMBER
- **Mohamed Hussain,**
  MEMBER

Remuneration & Nomination Committee

The Remuneration & Nomination Committee is appointed by the Board to assist the Board in the effective discharge of its responsibilities in relation to the remuneration of Directors and performance of the Board, ensure appropriate Board composition, ensure appropriate nomination of Directors to the Board, and provide a formal forum for communication between the Board and the Bank's management on human resource issues. Moreover, the Remuneration & Nomination Committee is authorized by the Board to review and investigate any matter within the scope of its Charter and to make recommendations to the Board in relation thereto.

- **Tunku Dato' Ya'acob Bin Tunku Abdullah,**
  CHAIRMAN
- **Shaikha Hissah bint Saad Al-Sabah,**
  MEMBER
- **Sheikh Mohammed Youseef El Khereiji,**
  MEMBER
- **Khalid Abdulla-Janahi,**
  NON-VOTING MEMBER

Risk Policy Committee

The primary objectives of the Risk Policy Committee are to make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the policies within which to manage the aforementioned. These policies are defined as credit risk, market risk, operational risk and liquidity risk in addition to any other risk category the Bank faces in carrying out its activities. The Risk Policy Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management, compliance procedures and methods of reporting to the Board.

- **Khalil Nooruddin,**
  CHAIRMAN
- **Kenneth C. Borda,**
  MEMBER (resigned as of 28 February 2010)
- **Tunku Dato' Ya'acob Bin Tunku Abdullah,**
  MEMBER
- **Mohamed Hussain,**
  MEMBER

Corporate Governance

Group Executive Management Sub-Committee

The Group Executive Management Sub-Committee, acting on behalf of the Executive Committee of the Board, assists the Executive Committee in seeking to assure that the latter acts on the basis of complete and accurate information, that the affiliates and subsidiaries of the Bank work towards leveraging the resources of the Company, as a group, and that the Bank, as a group, leverages those Bank resources towards driving horizontal synergies.

- **Khalid Abdulla-Janahi,**
  CHAIRMAN
- **Mohamed Hussain,**
  MEMBER, represents Ithmaar Bank
- **Naved Khan,**
  MEMBER, represents Faysal Bank
- **Faisal Al Alwan,**
  MEMBER, represents Shamil Bank
- **Mark C. Koch,**
  MEMBER, represents Faisal Private Bank

Insider Trading Compliance Sub-Committee

The main objectives of this Committee are to undertake the responsibility of ensuring that the company complies with the insider trading guidelines issued by the CBB, to review and investigate any matter within the scope of its charter, and to make recommendations to the Executive Committee in relation thereto.

- **Khalid Nooruddin,**
  CHAIRMAN (as of 16 October 2009)
- **Ahmed Abdul Rahim,**
  MEMBER
- **Jassim A. Karim Salman,**
  MEMBER
- **Nayla Asgharali,**
  INSIDER REPORTING OFFICER

Management Committees:

Investment Committee (Management)

The main objective of this Committee is to review, approve and ratify all investments within its authority, review risk management reports, and resolve all credit-related issues.

- **Mohamed Hussain,**
  CHAIRMAN
- **Ahmed Abdul Rahim,**
  MEMBER
- **Abdul Hakim Khalil Al-Mutawa,**
  MEMBER
- **Carolyn Prowse,**
  MEMBER
- **Tawfiq Mohammed Al-Bastaki,**
  NON-VOTING MEMBER

Asset-Liability Committee (ALCO)

The main functions of the ALCO are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Plan and relevant banking regulations and laws.

- **Mohamed Hussain,**
  CHAIRMAN
- **Ahmed Abdul Rahim,**
  MEMBER
- **Carolyn Prowse,**
  MEMBER
- **Abdul Hakim Khalil Al-Mutawa,**
  MEMBER
- **Tawfiq Mohammed Al-Bastaki,**
  MEMBER
- **Ravindra Khot**
  MEMBER

Management Committee (MC)

The MC's principal objectives are to improve communications and cooperation among the various divisions/departments of the Bank and to optimise the Bank's operational efficiency.

- **Mohamed Hussain**
  CHAIRMAN
- **Ahmed Abdul Rahim**
  MEMBER
- **Abdul Hakim Khalil Al-Mutawa**
  MEMBER
- **Carolyn Prowse**
  MEMBER
- **Tawfiq Mohammed Al-Bastaki**
  MEMBER
- **Ravindra Khot**
  MEMBER
- **Scott Creswell**
  MEMBER

Conflict of Interest

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict.

The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

Code of Business Conduct and Ethics

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

Communication with Stakeholders

The Bank follows the Public Disclosure Module of the CBB Rule Book, Volume I. The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include annual reports, quarterly publications of financial results, a corporate website and regular announcements in the appropriate local media. The last three years of financial data is available on the Bank's website.

Internal Audit

The Bank's internal audit function monitors compliance with the policies and procedures and effectiveness of internal controls. The work of internal audit is focused on the areas of risk assigned through a risk assessment approach.

The Group's Chief Internal Auditor reports functionally to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal audit conducts its work independently of the Bank's senior management, in accordance with the internal audit plan approved by the Audit Committee.

Directors' Remuneration

It is the Bank's objective to attract and retain high quality Directors. One aspect of achieving this is by remunerating Directors in a manner consistent with prevailing best practice. Directors are entitled to a sitting fee paid per meetings attended. Non-resident members are also entitled for full travel expenses. These fees are recommended by the Remuneration & Nomination Committee, approved by the Board and are disclosed to the shareholders.

Management Remuneration

The Executive Management is paid a fixed compensation and is not entitled to any profit-based incentives.

Corporate Governance

Directors' and Executive Management's Interest in the Bank's shares

Shareholder Name	Share Holdings 2009	Share Holdings 2008
Khalid Abdulla-Janahi	20,749,693	18,863,357
Shaikh Mohammed Youseef El Khereiji	5,280,000	4,800,000
Scott Creswell	906,400	824,000
H.R.H Prince Amr Mohammed Al Faisal	100,000	0
Shaikha Hissah bint Saad Al-Sabah	41,800	38,000
Khalil Nooruddin	41,800	38,000
Kenneth C. Borda	41,250	37,500
Tunku Dato' Ya'acob Bin Tunku Abdullah	40,982	37,256

Ithmaar Bank's Shareholdings Structure

Number of Shares	Number of Shareholders
1 - 10,000	86
10,001 - 100,000	2,297
100,001 - 1,000,000	376
1,000,001 - 10,000,000	143
Over 10,000,000	33
Total	2,935

Corporate Social Responsibility

As a concerned corporate citizen, Ithmaar has an enduring commitment to contribute to the social and economic betterment of the society. To support this commitment, the Bank has developed a wide-embracing programme of corporate social responsibility activities.

These include considerable financial contributions to a range of charitable, educational, social, cultural and sporting organisations and events; as well as initiatives that support the growth of the Islamic banking industry.

Ithmaar Education and Training

Ithmaar recognises education and training as key foundations to sustainable economic growth, especially for emerging and developing nations. The Bank shareholders approve the appropriation for education and training initiatives. Now in its third year, the $4.2 million Ithmaar Education and Training initiative comprises three distinct but interrelated elements.

First, in coordination with the Kingdom of Bahrain's Royal Charity Organisation (RCO), Ithmaar annually sponsors six under-privileged orphan students to attend private schools in Bahrain from KG 1 to Grade 12. The Bank is currently sponsoring 18 students at an accredited private school in Bahrain which is a member of the International Baccalaureate Organisation (IBO) and offers both the High School Diploma and the IB Diploma curriculums. The number of Ithmaar-sponsored students will increase by six every year until a total of 78 students are sponsored every year.

Also, in collaboration with a local, accredited university, Ithmaar provides undergraduate degree courses for 10 additional orphan students every year in Bahrain. The total number of students, as of 2009, is 30. When the programme reaches its fourth year, it will have reached its target size and Ithmaar will be sponsoring 40 undergraduate students every year.

Thirdly, in an arrangement with the London School of Economics, Ithmaar funds post-graduate education for promising young needy students from across the Muslim world. The sponsorship package is granted to five additional students every year, starting from 2007, for three years. The total number of students after the third year will be 15.

Risk Management

Risk is an integral part of Ithmaar's businesses and is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder value through business profits commensurate with the risk appetite of the Bank. Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations.

Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by the Bank for International Settlements and international best practices.

Risk Governance Structure

The Ithmaar risk management charter, which details the roles and responsibilities of the Board and of the senior management, lays the foundations for a risk governance structure in the Bank.

The Board approves the Bank's business and risk strategy and ensures that business developments are consistent with its risk appetite and strategies. The Board also oversees the establishment and implementation of risk management systems and policies for on and off balance sheet risks as well as operational risks.

The Risk Policy Committee (RPC) assists the Board of Directors and the senior management in performing their risk management oversight function. The Committee is responsible to ensure that the Bank adopts, maintains and applies appropriate risk management policies and procedures.

The process of risk management is carried out by an independent control function: Risk Management Department headed by the Chief Risk Officer with a direct reporting line to the RPC. The department is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits within the parameters of the overall risk strategy approved by the Board.

Risk Management Strategy

A structured risk management framework has been established to ensure that Ithmaar's business strategy and operations are linked to its risk management objectives. The overall risk strategy is complemented by appropriate limit structure management, which is complemented by comprehensive risk policies and procedures for all the material risk the Bank is exposed to.

The risk management strategy in respect of each of these types of risks is set out below.

Credit Risk

Credit risk is the risk of potential loss arising from failure of a counterparty to meet their contractual obligations. Ithmaar manages its credit risk arising from its banking book activities by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant exposures are independently reviewed by the risk management department before approval. Specialised personnel in the risk management department provide independent analysis of credit risk exposure.

The investment policies of the Bank set guidelines to limit concentration risk within the portfolio by country, industry, tenor and products. The investment policy also sets the criteria for risk rating and credit exposures. The policy also outlines the scoring techniques used in evaluating the investment proposals.

Credit risk is monitored on a revolving basis. Strategic Investments are subject to at least an annual review. Investments held in the Available for Sale category are reviewed at shorter frequencies. Provisions for impairment of financial assets are raised where there is objective evidence of impairment and at an amount adequate to cover assessed credit related losses. The Bank monitors the credit ratings of its financial counterparties through ratings provided by Standard and Poor's, Moody's, Fitch or Capital Intelligence.

Investments of the Bank are monitored on a regular basis, using various MIS generated by the business and risk management divisions.

ECAIs rating:

Ithmaar Bank utilizes all Basel-recognized ECAIs rating, as adopted by host regulators where the Bank’s subsidiaries operate, for the purpose of assigning risk weight on assets. In case of multiple ECAIs rating of a single counterparty, the lowest of all is taken to assign the relevant risk weight. The Bank uses ECAIs ratings provided by Credit agencies recognized by host regulators for its financing, placements and investments exposure. The Bank complies with all the qualitative requirements for the recognition process and eligibility criteria of ECAIs rating in the credit risk management policy of the Bank.

Credit Risk Mitigations:

The Bank applies Basel II rules for Credit Risk Mitigations, as adopted by host regulators where the Bank’s subsidiaries operate, and accordingly for all financing against liquid securities (bank deposits, saving certificates), the Bank will ensure that all the legal formalities and documentation of right to set-off in case of any default event are in place. On balance sheet netting is applied only in case of registered master netting agreement, duly vetted by the legal counsel of the Bank.

The Bank's credit portfolio is supported by various types of collateral but, for Capital Adequacy Purposes, Ithmaar Bank recognizes only the following two categories of collateral:

i. Cash Collateral/Pledge on customer accounts

ii. Listed Equity

No eligible guarantee/credit derivative counterparty has been accounted for Credit Risk Management (CRM) purposes. The CRM benefit taken from the eligible collateral - i.e. cash collateral and listed equity - is very minimal with no concentration risk.

Market Risk

Market risk is the potential loss arising from adverse changes in interest or profit rates, foreign exchange rates and equity prices. The Bank does not maintain an active trading book and all Ithmaar's market risk exposure primarily consist of interest or profit rate risk in investments, volatility in price of equities and foreign exchange rate. Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant Business Units with oversight by the ALCO.

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. At Ithmaar, foreign exchange risk is the risk that the investments denominated in any foreign currency that may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions.

Equity Price Risk

Ithmaar is exposed to equity price risk through strategic investments and investments in equities held in the Available for Sale category. The responsibility for management of equity price risk rests with the business units under the supervision and guidance from the investment committee of the Bank. The Risk Management Department independently monitors the equity price risk of the Bank. The Bank's equity investments are approved by the appropriate authorities and are subject to comprehensive due diligence. The equity investments are marked to market in accordance with CBB rules and Basel II guidelines.

Interest or Profit Rate Risk in the Banking Book

Interest or profit rate risk in the Bank's banking book is the risk of adverse changes in expected net interest earnings and economic value of the balance sheet in current and future years resulting from the impact of changes in interest rates on mismatched assets and liabilities in the banking book. The Bank measures and manages interest or profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps. The measurement systems for interest or profit rate sensitivity analysis are: traditional maturity gap analysis (to measure the interest or profit rate sensitivity of earnings) and duration (to measure interest or profit rate sensitivity of capital). Limits are independently monitored by the Risk Management Department.

Interest or profit rate risk also impacts the market value of fixed income securities. The value of the fixed income securities is regularly monitored to gauge the impact on its value as a result of changes in the interest or profit rates.

A mechanism to hedge the interest or profit rate risk in the banking book or the investments of the Bank with interest rate swaps is in place, and resorted to when a decision is taken to hedge any interest or profit rate risks in the books of the bank.

Interest or profit rate risk is regularly monitored by the ALCO and a comprehensive agenda addressing the interest rate is placed at its meetings.

Further information on interest or profit rate risk management is included in Notes to the Financial Statements.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO.

The Risk Management Department provides an independent monitoring of liquidity risk management, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the required funding maturity profile.

Ithmaar Bank's liquidity policy aims to promote application of international best practices in the management of its Balance Sheet. Liquidity requirements are measured and tested under different stress scenarios, with the base case scenario defining the minimum amount of liquidity that must be held at all times. The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities, the process of setting such standards, the terms of reference of ALCO, the roles and responsibilities of the various functions involved and the Management Information Systems (MIS).

A liquidity contingency policy is in place and provides the mechanism for management of liquidity in adverse market conditions.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can result in both financial loss and/or reputation risk.

Ithmaar's approach to operational risk includes emphasis on:

- Establishing an effective governance structure with clear reporting lines and segregation of duties
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues.

All business units are primarily responsible for managing their business activities as per the approved policies and procedures. Business units are also responsible for the identification and assessment of operational risks and for maintaining appropriate internal controls.

The Bank is currently enhancing its operational risk framework to enable it to put in place a comprehensive risk and control self assessment process to identify the key risks in the business processes. This will also include a process of identifying and managing the key risk indicators, loss reporting set-up and implementing a robust business continuity plan.

Reputation Risk

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities. Sound corporate governance is a cornerstone in managing reputation risk. The Bank has implemented a "Corporate Governance Policy" and a "Code of Ethics and Business Conduct" for the members of the Board, Management and staff. This code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank. It will also help in preventing any reputation risks.

Risk Management Reporting and Control

The effective measurement, reporting and control of risk is vital to ensure that Ithmaar's business activities are managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation.

Risk Management Policies and Procedures

Ithmaar has developed specific risk management strategies, policies and procedures in order to identify, measure, monitor and report the key risks the Bank is exposed to.

Internal Controls

Ithmaar's risk management framework is complemented by robust internal controls across all aspects of the business, as well as strong support functions covering the legal, regulatory, governance, reputation, information technology, process and human resource risks. Consequently, the effectiveness and efficiency of controls are evaluated in all new and updated products, processes and systems, or where external and internal factors impact the operating environment. The internal control framework forms a part of Ithmaar's corporate governance policy.

Capital Management

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholder value is enhanced. Ithmaar maintains capital at a consolidated level and all entities which are consolidated for accounting purposes are included within the Bank's capital adequacy calculations as per CBB Prudential Consolidation and Deduction rules.

Ithmaar's capital position is monitored on a regular basis and reported to the Asset and Liability Committee of the Bank.

Capital management is considered to be a coordinated effort by the business divisions, Risk Management and Financial Control and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP).

A comprehensive risk-assessment of the 2010–2012 Business Plan has been performed which, inter alia, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios. This document is presented to the Board.

Compliance

In accordance with the directives of the CBB, the Bank employs a Compliance Officer who also acts as a Money Laundering Reporting Officer (MLRO). The Compliance Officer acts as central coordinator for the group in respect of all matters relating to the CBB's regulatory reporting and other requirements, the Bahrain Stock Exchange, the Kuwait Stock Exchange and the Ministry of Industry and Commerce.

The compliance function covers the broad areas of corporate governance, adherence to best practices, code of conduct, conflict of interest, compliance with Basel II and other issues. Each of Ithmaar's banking subsidiaries also employs local compliance officers to ensure adherence to local requirements and regulatory issues. It is the duty of the MLRO in each subsidiary to ensure that sufficient information is obtained in all cases to enable the identity of every client to be satisfactorily established, failing which monies cannot be transferred, and to report any suspicions concerning a customer or account to their relevant regulator and senior management.

The MLRO is also responsible for establishing and maintaining appropriate and effective systems, controls and records to ensure compliance with regulatory obligations in regard to money laundering.

This responsibility of the Compliance Officer also includes the issue and implementation of Anti Money Laundering policies and procedures to all banking subsidiaries throughout the group, arranging in-house and external Anti-Money Laundering training for relevant officers and submission of group reports to the Board and the CBB.

Basel II Implementation

The Bank is applying the provisions of the Basel II Accord as follows;

• Pillar 1-The Pillar 1 deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk. The Bank has adopted the following approach for capital adequacy measurement:

- Standardised approach for credit risk
- Basic indicator approach for operational risk
- Standardised approach for market risk

Ithmaar is compliant with all requirements of Pillar 1 and, since January 2008, started reporting the consolidated capital adequacy numbers as per the new accord.

• Pillar 2- In order to ensure compliance to the provisions of Pillar 2, Ithmaar has formalised all risk management policies including risk covered in Pillar 2 and is endeavouring towards laying the foundation for a sound Internal Capital Assessment Process (ICAAP). A comprehensive operational risk management framework is also being rolled over in line with international best practices.

• Pillar 3- The Bank is currently in compliance with the disclosure requirements mandated by the CBB, accounting standards, and other statutory bodies.

Report of the Directors for the year ended 31 December 2009

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2009, together with the audited consolidated financial statements of the Bank and its subsidiaries (the "group") for the year then ended.

Principal Activities

The principal activities of the group are a wide range of financial services, including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing and real estate development.

Consolidated Financial Position and Results

The consolidated financial position of the group as at 31 December 2009, together with the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended is set out in the accompanying consolidated financial statements.

The group has reported a net loss of $233.4 million for 2009, as compared to a net profit of $85.2 million for 2008. Total assets at 31 December 2009 amounted to $5,214 million (31 December 2008: $5,380 million). Funds under management at 31 December 2009 amounted to $2,102 million (31 December 2008: $1,992 million).

Corporate Governance, Risk Management and Compliance

During 2009, the Bank has further strengthened its corporate governance, risk management and compliance frameworks.

Capital Adequacy Ratio

The Bank's consolidated Capital adequacy ratio under Basel II as at 31 December 2009 was 12.77% (2008: 14.41%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in note 37 to the accompanying consolidated financial statements.

Directors

The following are the Directors of the Bank as at 31 December 2009:

HRH Prince Amr Mohammed Al Faisal
(Chairman with effect from 17 December 2009)

Mr. Khalid Abdulla-Janahi
(Executive Vice Chairman with effect from 17 December 2009)

Tunku Dato' Ya'acob Bin Tunku Abdullah

Mr. Abdel Hamid Abo Moussa

Mr. Mohammed Youseef El-Khereiji

Sheikha Hissah Bint Saad Al-Sabah

Mr. Khalil Nooruddin

Mr. Michael P. Lee

Mr. Mohamed Hussain

Mr. Ziad Hasan Rawashdeh
(resigned with effect from 5 November 2009)

Mr. Kenneth C. Borda
(resigned with effect from 28 February 2010)

Directors' Sitting Fees

Directors' sitting fees for 2009 amounted to $516,000 (2008: $492,500).

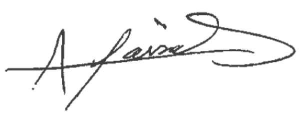
Dividend

No dividend has been declared for 2009. A stock dividend for 2008 of one share for every ten shares held was issued in 2009.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2010.

By order of the Board of Directors



HRH Prince Amr Mohammed Al Faisal
Chairman

28 February 2010

Consolidated Financial Statements & Notes

for the year ended 31 December 2009

Contents:

Independent Auditor's Report to the Shareholders of Ithmaar Bank B.S.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.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 income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Regulatory Requirements

Further, as required by the Bahrain Commercial Companies Law ("BCCL") and the Central Bank of Bahrain Law ("CBBL"), we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the BCCL, the CBBL, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2009.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
10 March 2010

Consolidated Statement of Financial Position

As at 31 December
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	2009	2008
ASSETS			
Cash and cash equivalents	6	665,697	1,257,132
Investments in financings	7, 8, 9	1,978,109	2,058,034
Investment securities	10	931,666	617,228
Investment properties	12	397,582	273,786
Accounts receivable	13	166,424	161,773
Investments in associates	14	702,366	612,602
Property, plant and equipment	15	107,745	124,119
Intangible assets	16	258,607	275,752
Deferred tax asset	23	5,665	-
Total assets		**5,213,861**	**5,380,426**
LIABILITIES			
Customer current accounts	17	455,265	470,602
Customer investment accounts	18	1,716,154	1,468,514
Due to banks and financial institutions	19	1,493,018	1,595,068
Other borrowings	20,21	259,438	410,074
Accounts payable	22	344,475	237,542
Current tax payable	23	8,112	7,137
Deferred tax liability	23	-	42,138
Total liabilities		**4,276,462**	**4,231,075**
EQUITY			
Capital and reserves attributable to the Bank's equity holders			
Share capital	33	568,832	527,956
Reserves	34	142,603	395,953
		711,435	**923,909**
Minority interests	**32**	**225,964**	**225,442**
Total equity		**937,399**	**1,149,351**
Total equity and liabilities		**5,213,861**	**5,380,426**
Funds under management	**38**	**2,101,955**	**1,991,673**

These consolidated financial statements were approved for issue by the Board of Directors on 28 February 2010 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Khalid Abdulla-Janahi
Executive Vice Chairman

Mohamed Hussain
CEO and Director

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	2009	2008
INCOME			
Income from short term deposits		82,228	55,742
Income from investments in financings	24	181,419	191,521
Fee and commission income	25	34,825	46,166
Fund management and services	38	5,420	16,859
Gains from investment securities	10	9,258	4,093
Income from investment properties	26	2,833	114,268
Net trading income	27	4,858	4,061
Dividend income	28	9,912	27,962
Other income		6,185	5,089
		336,938	**465,761**
Distribution to investment account holders and borrowing costs		(230,888)	(185,898)
Operating income		**106,050**	**279,863**
EXPENSES			
Staff costs	29	(68,955)	(62,687)
General and administrative expenses	30	(52,836)	(52,416)
Depreciation and amortisation	14,15,16	(34,046)	(29,061)
Provision for impairment	9,10,16	(206,905)	(52,875)
Exchange (loss)/gain		(3,187)	5,291
Total expenses		**(365,929)**	**(191,748)**
Operating profit/(loss)		**(259,879)**	**88,115**
Share of profit of associated companies	14	27,072	6,325
Profit/(loss) before income taxes		**(232,807)**	**94,440**
Taxes	31	(562)	(9,278)
Profit/(loss) after income taxes		**(233,369)**	**85,162**
Attributable to:			
Equity holders of the Bank		(235,003)	22,168
Minority interests	32	1,634	62,994
		(233,369)	**85,162**
Basic and diluted earnings per share	**36**	**US cts (10.26)**	**US cts 0.95**

These consolidated financial statements were approved for issue by the Board of Directors on 28 February 2010 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Khalid Abdulla-Janahi
Executive Vice Chairman

Mohamed Hussain
CEO and Director

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	2009	2008
Profit/(loss) for the year	**(233,369)**	**85,162**
Other comprehensive income		
Movement in fair value of available-for-sale investments	11,025	(82,654)
Transfer to income statement due to disposal of available-for-sale investments	(3,193)	(8,167)
Transfer to income statement due to impairment of available-for-sale investments	42,925	-
Movement in deferred tax of available-for-sale investments	(1,801)	9,583
Foreign currency translation differences for foreign operations	(19,452)	(88,333)
Other comprehensive income/(loss) for the year	**29,504**	**(169,571)**
Total comprehensive loss for the year	**(203,865)**	**(84,409)**
Comprehensive income/(loss) attributable to:		
Equity holders of the Bank	(204,387)	(92,892)
Minority interests	522	8,483
	(203,865)	**(84,409)**

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Attributable to the Bank's equity holders									
		Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Currency translation	Retained earnings	Total reserves	Minority interests	Total equity
At 1 January 2008		537,474	216,026	35,873	68,327	27,170	(3,079)	206,017	550,334	196,589	1,284,397
Treasury shares purchased	33	(29,950)	(41,281)	-	-	-	-	-	(41,281)	-	(71,231)
Treasury shares sold	33	20,432	34,796	-	-	-	-	-	34,796	-	55,228
Total comprehensive income/(loss)		-	-	-	-	(69,620)	(45,574)	22,302	(92,892)	8,483	(84,409)
Dividend paid	35	-	-	-	-	-	-	(52,435)	(52,435)	-	(52,435)
Dividend paid by subsidiaries		-	-	-	-	-	-	-	-	(12,317)	(12,317)
Minority interests relating to new subsidiaries	32	-	-	-	-	-	-	-	-	32,687	32,687
Transfer to general reserve	34	-	-	-	39,352	-	-	(39,352)	-	-	-
Transfer to statutory reserve		-	-	2,217	-	-	-	(2,217)	-	-	-
Appropriation to Ithmaar Education and Training Fund		-	-	-	-	-	-	(2,569)	(2,569)	-	(2,569)
At 31 December 2008		**527,956**	**209,541**	**38,090**	**107,679**	**(42,450)**	**(48,653)**	**131,746**	**395,953**	**225,442**	**1,149,351**

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

		Attributable to the Bank's equity holders									
	Notes	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Currency translation	Retained earnings	Total reserves	Minority interests	Total equity
At 1 January 2009		527,956	209,541	38,090	107,679	(42,450)	(48,653)	131,746	395,953	225,442	1,149,351
Shares issued	35	54,362	(54,362)	-	-	-	-	-	(54,362)	-	-
Treasury shares purchased	33	(19,322)	5,973	-	-	-	-	-	5,973	-	(13,349)
Treasury shares sold	33	5,836	(20)	-	-	-	-	-	(20)	-	5,816
Total comprehensive income/(loss)		-	-	-	-	44,439	(13,261)	(235,565)	(204,387)	522	(203,865)
Transfer to general reserve	34	-	-	-	43,148	-	-	(43,148)	-	-	-
Appropriation to Ithmaar Education and Training Fund		-	-	-	-	-	-	(554)	(554)	-	(554)
At 31 December 2009		**568,832**	**161,132**	**38,090**	**150,827**	**1,989**	**(61,914)**	**(147,521)**	**142,603**	**225,964**	**937,399**

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxes and minority interests		(232,807)	94,440
Adjustments for:			
Reversal of provision for share based payments	29	-	(5,321)
Depreciation and amortisation	14,15,16	34,046	29,061
Changes in fair value of investment properties	12	(319)	(111,772)
Share of profit of associated companies	14	(27,072)	(6,325)
Provision for impairment	9,10,15,16	206,905	52,875
Operating (loss)/profit before changes in operating assets and liabilities		**(19,247)**	**52,958**
Increase in investments in financings		(3,965)	(151,326)
Increase in investment securities		(341,195)	(210,466)
Increase in accounts receivable		(66,993)	(59,881)
Increase/(decrease) in accounts payable, excluding taxes		78,251	(36,509)
Increase in customer accounts		232,303	974
(Decrease)/increase in due to banks and financial institutions		(102,050)	1,201,043
Taxes paid		(45,835)	(5,782)
Net cash (used in)/provided by operating activities		**(268,731)**	**791,011**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends from associated companies	14	12,966	1,523
Investments in associated companies	14	(79,065)	(435,533)
Purchase of investment properties	12	(91,310)	(52,256)
Sale of investment properties	12	12,066	98,178
Purchase of property, plant and equipment	15	(8,076)	(11,539)
Sale of property, plant and equipment	15	4,289	2,722
Net cash used in investing activities		**(149,130)**	**(396,905)**

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Other borrowings	21	(150,636)	286,835
Treasury shares purchased	33	(13,349)	(71,231)
Treasury shares sold	33	5,816	55,228
Dividends paid		-	(52,435)
Dividends paid to minority shareholders of subsidiaries		-	(12,317)
Net cash (used in)/provided by financing activities		**(158,169)**	**206,080**
Foreign currency translation adjustments		(15,405)	65,470
Net (decrease)/increase in cash and cash equivalents		**(591,435)**	**665,656**
Cash and cash equivalents at beginning of year		1,257,132	591,476
Cash and cash equivalents at end of year	**6**	**665,697**	**1,257,132**

The notes on pages 41 to 102 form an integral part of these consolidated financial statements.

1. Formation and activities

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and is an investment bank regulated by the Central Bank of Bahrain. The Bank has its registered office at Addax Tower, 10th floor, Building 1006, Road 2813, Al Seef District 428, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing and real estate development. The management of Islamic modarabas which are similar to investment funds are not consolidated in the accompanying consolidated financial statements because they represent funds invested by clients without recourse to the Group. Accordingly, they are included in off-balance sheet accounts as disclosed in note 38.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statement comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, trading securities, derivative instruments and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 4.

New Accounting Pronouncements: International Financial Reporting Standards

(a) Standards, amendments and interpretations effective on or after 1 January 2009

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

Standard	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial Instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009

- **Amendments to IFRS 7, 'Financial instruments: Disclosures'**
  The IASB published amendments to IFRS 7 in March 2009. The amendments require 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.
- **IFRS 8, 'Operating segments'**
  IFRS 8 was issued in November 2006 and would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the

2. Significant accounting policies (continued)

Group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group but has an impact on segment disclosure and on the measurement bases within segments. The segment results have been changed accordingly.

- **IAS 1 (revised), 'Presentation of financial statements'**
  A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

The following standards, amendments and interpretation became effective in 2009, but was not relevant for the Group's operations:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payment – Vesting conditions and cancellations	1 January 2009
IAS 23	Borrowing costs	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 13	Customer loyalty programmes	1 July 2008

- **IFRS 2, 'Share-based payment' – Vesting conditions and cancellations**
  The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. There is no impact on the Group's consolidated financial statements by applying the amendment of IFRS 2.

- **IAS 23, 'Borrowing costs'**
  A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated statement of financial position.

- **IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidiation'**
  The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. There is no impact on the Group's consolidated financial statements by adoption of the IAS 32 amendment.

- **IFRIC 16, 'Hedges of a net investment in a foreign operation'**
  This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. There is no impact on the Group's consolidated financial statements by adoption of this interpretation.

2. Significant accounting policies (continued)

- **IFRIC 13, 'Customer loyalty programmes'**
  IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

(b) Standards, amendments and interpretations issued but not yet effective

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

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- **IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'**
  The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. The application of amended IFRS 1 and IAS 27 are not expected to have impact on the Group's consolidated financial statements.

- **IFRS 3, 'Business combinations'**
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010. The application of IFRS 3 is not expected to have impact on the Group's consolidated financial statements.

- **IAS 27, 'Consolidated and separate financial statements'**
  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.

- **IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'**
  The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk

2. Significant accounting policies (continued)

will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The application of amended IAS 39 is not expected to have impact on the Group's consolidated financial statements.

- **IFRIC 17, 'Distribution to non-cash assets to owners'**
  IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss.

  Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 is not expected to have impact on the Group's consolidated financial statements.

- **IFRIC 18, 'Transfers of assets from customers'**
  IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The application of IFRIC 18 is not expected to have impact on the Group's consolidated financial statements.

- **Improvements to IFRS**
  'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain 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. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes are expected as a result of these amendments.

- **IFRS 9, 'Financial instruments part 1: Classification and measurement'**
  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 recognize 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.
  - The adoption of IFRS 9 is mandatory from 1 January 2013. Management is considering the implication of this standard, its impact on the Group's consolidated financial statements and the timing of its application by the Group.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

2. Significant accounting policies (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Intercompany transactions, balances, and unrealised/realised gains/losses on transactions between Group companies are eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes intangibles (net of amortization) and goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains/losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Accounts for associated companies have been restated to conform with Group accounting policies, if necessary, except as otherwise disclosed.

(c) Transactions and minority interests
The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in equity.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries 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 United States dollars, which is the Bank's functional and presentation currency.

(b) 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

2. Significant accounting policies (continued)

monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

b. income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

c. and all resulting exchange differences are recognised as a separate component in the statement of comprehensive income (foreign currency translation adjustment).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and intangibles arising on the acquisition of a foreign entity are translated at the closing rate on each reporting date.

Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, equity options and equity futures are initially recognised in the consolidated statement of financial position at fair value and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, discounted cash flow models, and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Group designates derivatives as either (a) a hedge of fair value of a recognised asset or liability (fair value hedge); or (b) a hedge of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction or a firm commitment (cash flow hedge). At present the Group does not hedge future cash flows. Hedge accounting is used for derivatives provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

(a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied; (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item through out the reporting period; and (c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the consolidated income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the fair value hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged financial instrument is amortised in the consolidated income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

2. Significant accounting policies (continued)

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the consolidated income statement.

Income from investments and investments in financings

Income from investments and investments in financings, which both contractually determined and quantifiable at the commencement of the transaction, are accrued on the effective return method basis over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, income is thereafter recognised using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fees and commissions are generally recognised as income when earned. Origination fees on financings which are probable of being drawn down, are deferred and recognised over the term of the financing as an adjustment to the effective yield. Structuring fees, underwriting fees, commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction.

Asset management fees related to investment funds are recognised rateably over the period the service is provided and are recorded in fund management and services income when capable of being reliably measured.

Management advisory and technical service fees are recognised based on applicable service contracts usually on a time-apportionate basis and are recorded in other income.

Distribution to investment account holders and borrowing costs

Distribution to investment account holders and borrowing costs, which both contractually determined and quantifiable at the commencement of the transactions are accrued on the effective return method basis over the period of the transaction. Where costs are not contractually determined or quantifiable, it is recognised when reasonable certain of realisation or when realised.

The expense charged to the consolidated income statement as a distribution to investment account holders represents the share of the Group's income from all sources which is due to customers of the Group under contractual arrangements in force and borrowing costs on bilateral and multilateral borrowing arrangements.

Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement (repos) are recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for trading or investment securities. The counterparty liability for amounts received under these agreements is included in customer investment accounts. The difference between the sale and repurchase value is accrued over the period of the contract and recorded as expense in the consolidated income statement.

Securities purchased under agreements to resell (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included under investments in financings. The difference between the contracted price and the resale price is amortised over the period of the contract and is recognised as income in the consolidated income statement.

Obligations for the return of securities or for forward sales, which are a part of the repurchase agreements, are recognised as commitments as disclosed in note 42.

Financial Assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification of investments is determined at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss (refer to details below). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

2. Significant accounting policies (continued)

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading, including trading securities, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless qualifying for hedge accounting.

Financial assets at fair value through profit and loss are initially recognised at fair value (which excludes transaction costs) and subsequently carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income in the period in which they arise. Dividends declared are included in dividend income.

All purchases and sales of financial assets at fair value through profit and loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables, which include or represent investments in financings, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. In general, they arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and also includes purchased loans and receivables that are not quoted in an active market. Loans and receivables are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the intent and the ability to hold them to maturity. If more than an insignificant amount of held-to-maturity assets is sold, the entire category will be considered tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in exchange rates, equity prices or other market rates. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

Available-for-sale investments are initially recognised at fair value (which includes transaction costs) and subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or the asset is an unlisted security, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated income statement as gains or losses from investment securities. Dividends declared are included in dividend income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in consolidated statement of comprehensive income.

2. Significant accounting policies (continued)

Impairment of Financial Assets

The Group assesses at each date of the statement of financial position, whether there is objective evidence that a financial asset or group of financial assets is impaired.

(a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset that can be reliably estimated. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective rate of return, including any amounts recoverable from guarantees and collateral, and recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through the consolidated income statement.

In the case of Islamic financings to customers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made and additional country risk provisions may be established.

(b) Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below their cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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, is removed from equity and recognised in the consolidated income statement. If in subsequent periods the fair value of equity instruments increases, impairment losses previously recognised in the consolidated income statement are not reversed but are recognised in the consolidated statement of comprehensive income.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually or more often if indicators exist for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

2. Significant accounting policies (continued)

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives.

(c) Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the interest differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

Investment properties

Investment property principally comprises office buildings and land which are held to earn rental income or for long-term capital appreciation or both. Investment property is carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources. Changes in fair values are recorded in the consolidated income statement as part of income from investment properties. The Group does not classify operating leases as investment property.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, except for land, which is shown at cost. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Aircraft	25 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

Leases

Total payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

When a Group company is the lessee of property, plant and equipment and the Group has substantially all the risks and rewards of ownership, they are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included

2. Significant accounting policies (continued)

in accounts payable. The profit element of the finance cost is charged to the consolidated income statement over the lease period. The asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

When a Group company is the lessor and assets are held subject to a finance lease, the value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the actuarial method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the date of the consolidated statement of financial position.

Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). Its sale must be planned and committed and an active programme initiated to locate a buyer and complete the plan within one year. The asset (or disposal group) must be actively marketed for a price that is reasonable in relation to its current fair value.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the consolidated income statement for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group held for sale.

The Group separately classifies the material non-current assets held for sale (or disposal group) in the consolidated statement of financial position. Furthermore, all major classes of assets and liabilities are disclosed. Any cumulative income or expense is disclosed as a separate item within equity. Prior period amounts are not re-presented to reflect the classification of the assets (or disposal group) in the current period.

Non-current assets, which are to be abandoned, are not classified as held for sale and are reclassified as discontinued operations, to the extent they meet the requirements of discontinued operations in the paragraph which follows.

If a non-current asset (or disposal group) ceases to be classified as held for sale or as discontinued operations, the results of operations are reclassified and included in the consolidated income statement from continuing operations for all periods presented.

Due to banks and financial institutions

Due to banks and financial institutions are initially recorded at fair value and subsequently measured at amortised cost using effective return method.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective return method.

Current and deferred income tax

Taxes are provided and charged in the consolidated income statement on the basis of the estimated tax expense payable currently and in future years, arising in respect of the results of current operations and generate taxable income.

2. Significant accounting policies (continued)

The current income tax charge is calculated on the basis of tax laws enacted or substantially enacted at the date of the statement of financial position in the countries where the Bank's subsidiaries and associates operate.

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their respective carrying values for financial reporting purposes. The amount of deferred taxes on these differences is determined using the provisions of local tax laws, including rates, and is adjusted upon enactment of changes in these laws. Provision is made for potential taxes which could arise on the remittance of retained overseas earnings where there is a current intention to remit such earnings.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments which is charged or credited directly to the fair value reserve, is also credited or charged directly to the fair value reserve and is subsequently recognised in the consolidated income statement together with the deferred gain or loss.

Deferred tax related to fair value re-measurement is charged or credited to the fair value reserves.

Retirement benefit plans
The Group operates a number of defined benefit and defined contribution pension plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using high standard corporate bond rates which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives.

The Group's contributions to defined contribution pension plans are charged in the consolidated income statement in the year to which they relate.

Share capital
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on share capital are recognised as an appropriation in equity in the period in which they are declared. Dividends for the year which are declared after the date of the statement of financial position are dealt with in note 35.

Share-based payments
The Bank has implemented an incentive scheme whereby certain employees will be entitled to a cash payment, calculated by reference to the difference between the book value per share as at the grant date and the higher of the book value per share or the last traded price recorded on the Bahrain Stock Exchange as at the end of the vesting period, subject in either case to a maximum amount per share. The estimated liability at the end of the vesting period under this incentive scheme is charged to staff costs over the vesting period.

Treasury shares
Where any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed off. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Bank's equity holders.

2. Significant accounting policies (continued)

Acceptances
Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are therefore accounted for as off-balance sheet transactions and are disclosed as part of contingent liabilities and commitments.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and amounts due from other banks.

Fiduciary activities
The Group through its banking subsidiaries provides fund management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

Income arising from fund management and advisory services comprises the revenues earned from the management of the funds in the modarabas accrued on the basis of the terms and conditions of the related management agreements. Funds under management represent amounts invested by clients and placed with funds managed by the Group.

3. Financial risk management

a. Strategy in using financial instruments
By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts investments from customers at varying rates of return and for various periods and seeks to earn above average profits by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher return potential whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its profit margins by obtaining above average margins, net of provisions, through transactions with commercial and retail customers. Such exposures involve not just on-balance sheet Islamic financings but the Group also enters into Islamically acceptable guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and profit rates. The individual subsidiary's Boards place trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and profit rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

(i) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions; (ii) equity futures are contractual obligations to receive or sell shares on a future date at a specified price established in an organised financial market; and (iii) equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of shares at a predetermined price. In consideration for the assumption of the risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter).

b. Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) To comply with the capital requirements set by the regulators of the banking jurisdictions where the Group operates;

(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

3. Financial risk management (continued)

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Bahrain for supervisory purposes. The required information is filed with the Central Bank of Bahrain on a quarterly basis.

The Central Bank of Bahrain requires each bank or banking group to: (a) hold the minimum level of the regulatory capital and (b) maintain a ratio of total regulatory capital to the consolidated risk-weighted exposures at the agreed minimum of 12%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the Kingdom of Bahrain are directly regulated and supervised by their local banking supervisor, whose requirements may differ from country to country.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital (net of the book value of any treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
b) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and qualifying asset revaluation reserves including unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. Operational risk exposure is measured by using basic indicator approach.

c. Risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by individual entities within the Group under policies approved by their respective Boards of Directors. The Boards provide written principles for overall management, as well as written policies covering specific areas, such as market rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk and market risk.

d. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances (including accounts receivables). There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control are carried out by credit risk management teams, which report to the Boards of Directors through risk management committees.

Credit risk measurement

Loans and advances

The Group has well defined credit structures under which credit committees, comprising senior officers with required credit background, critically scrutinise and sanction financing. The Group's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. Besides financial, industry and transaction analysis, the credit evaluation also includes risk rating systems which gauge risk rating of all customers.

3. Financial risk management (continued)

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector and by country are approved by the Boards of Directors of Group entities.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures in relation to daily delivery risk limits are monitored on a daily basis, whereas other limits are monitored on a quarterly, semi annual or annual basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet payment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The principal collateral types for loans and advances are:

a) Mortgages over residential and commercial properties;
b) Charges over business assets such as premises, inventory and accounts receivable;
c) Charges and pledges over financial instruments such as debt securities and equities.

In order to minimise the credit loss the Group will seek immediate recovery or additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Derivatives

The Group maintains control limits on net open derivative positions (i.e, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and by other collaterals that are obtained in the normal course of business and therefore carry less risk than a direct loan.

3. Financial risk management (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, where these are not unconditionally cancellable. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating systems referred to in "Credit Risk Measurement" focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management purposes.

The Group's internal rating tools and guidelines assist management to determine whether objective evidence of impairment exists under IAS 39 based on the following criteria set out by the Group:

(i) Delinquency in contractual payments of principal or return;

(ii) Cash flow difficulties experienced by the borrower (e.g., equity ratio, net income percentage of sales);

(iii) Breach of loan covenants or conditions;

(iv) Initiation of bankruptcy proceedings;

(v) Deterioration of the borrower's competitive position; and

(vi) Deterioration in the value of collateral;

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the date of the statement of financial position on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogeneous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Credit risk exposure relating to on-balance sheet assets are as follows:	Maximum exposure 2009	2008
Cash and cash equivalents	624,638	1,209,815
Investments in financings		
Corporate financing	1,025,445	923,974
Bank and other financial institutions	492,022	363,554
Agricultural financing	41,691	37,885
Consumer financing	275,210	453,385
Government/public financing	111,576	55,739
Other financing	32,165	223,497
Investment securities	626,374	312,635
Accounts receivable	166,424	161,773
Credit risk exposure relating to off-balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	447,076	511,097
Financing commitments, undrawn facilities and other credit related liabilities	1,188,783	518,150
At 31 December	**5,031,404**	**4,771,504**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans reported under corporate financing, that would otherwise be past due or impaired, amounted to $48.3 million at 31 December 2009 (2008: $2.7 million).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following geographical regions and industry sectors:

Geographical regions

At 31 December 2009	Asia/ Pacific	Middle East	Europe	North America	Others	Total
Cash and cash equivalents	106,673	430,809	107,571	7,470	13,174	665,697
Investments in financings	1,350,080	323,363	43,470	16,091	245,105	1,978,109
Investment securities	680,890	167,024	17,441	57,241	9,070	931,666
Investment properties	12,010	282,862	102,710	-	-	397,582
Accounts receivable	20,687	111,394	23,259	10,996	88	166,424
Investments in associates	62,679	639,227	460	-	-	702,366
Property, plant and equipment	27,577	51,391	28,777	-	-	107,745
Intangible assets	88,764	169,098	745	-	-	258,607
Deferred tax asset	5,665	-	-	-	-	5,665
Total assets	**2,355,025**	**2,175,168**	**324,433**	**91,798**	**267,437**	**5,213,861**
Customer current accounts	271,692	161,388	7,168	2,609	12,408	455,265
Customer investment accounts	1,208,406	499,571	7,170	935	72	1,716,154
Due to banks and financial institutions	418,547	1,061,480	1,209	172	11,610	1,493,018
Other borrowings	12,095	225,483	21,860	-	-	259,438
Accounts payable	72,351	248,618	14,191	9,315	-	344,475
Current tax payable	7,751	-	355	6	-	8,112
Total liabilities	**1,990,842**	**2,196,540**	**51,953**	**13,037**	**24,090**	**4,276,462**
Net on-balance sheet position	**364,183**	**(21,372)**	**272,480**	**78,761**	**243,347**	**937,399**
Contingent liabilities and commitments	**1,062,300**	**118,840**	**399,560**	**5,262**	**49,897**	**1,635,859**
At 31 December 2008						
Total assets	**2,011,503**	**2,684,671**	**325,978**	**104,886**	**253,388**	**5,380,426**
Total liabilities	**1,618,692**	**2,424,257**	**180,502**	**3,489**	**4,135**	**4,231,075**
Net on-balance sheet position	**392,811**	**260,414**	**145,476**	**101,397**	**249,253**	**1,149,351**
Contingent liabilities and commitments	**768,719**	**226,035**	**22,243**	**1,250**	**11,000**	**1,029,247**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following industry sectors:

Industry sectors

	Banks and financial institutions	Trading and Manu-facturing	Property and Cons-truction	Services	Private ind-ividuals	Textile	Other	Total
At 31 December 2009								
Cash and cash equivalents	614,081	-	-	51,596	-	-	20	665,697
Investments in financings	564,139	355,239	231,457	127,240	108,627	212,078	379,329	1,978,109
Investment securities	270,475	40,304	37,705	488,660	-	692	93,830	931,666
Investment properties	-	-	397,582	-	-	-	-	397,582
Accounts receivable	82,637	27,415	33,658	2,136	7,825	16	12,737	166,424
Investments in associates	555,245	4,009	82,084	60,568	-	-	460	702,366
Property, plant and equipment	1,826	-	79,270	26,649	-	-	-	107,745
Intangible assets	258,607	-	-	-	-	-	-	258,607
Deferred tax asset	-	-	-	5,665	-	-	-	5,665
Total assets	**2,347,010**	**426,967**	**861,756**	**762,514**	**116,452**	**212,786**	**486,376**	**5,213,861**
Customer current accounts	-	97,103	33,008	103,022	132,268	7,386	82,478	455,265
Customer investment accounts	551,505	158,050	70,052	42,916	634,371	9,861	249,399	1,716,154
Due to banks and financials institutions	1,493,018	-	-	-	-	-	-	1,493,018
Other borrowings	237,578	-	-	21,860	-	-	-	259,438
Accounts payable	57,297	10,613	83,815	14,044	19,896	1,839	156,971	344,475
Current tax payable	-	-	-	8,112	-	-	-	8,112
Total liabilities	**2,339,398**	**265,766**	**186,875**	**189,954**	**786,535**	**19,086**	**488,848**	**4,276,462**
Net on-balance sheet position	**7,612**	**161,201**	**674,881**	**572,560**	**(670,083)**	**193,700**	**(2,472)**	**937,399**
Contingent liabilities and commitments	**840,579**	**169,403**	**146,979**	**144,732**	**7,430**	**108,060**	**218,676**	**1,635,859**
At 31 December 2008								
Total assets	**2,549,064**	**479,778**	**756,759**	**762,822**	**318,521**	**229,107**	**284,375**	**5,380,426**
Total liabilities	**2,455,001**	**254,728**	**179,335**	**368,067**	**369,903**	**19,193**	**584,848**	**4,231,075**
Net on-balance sheet position	**94,063**	**225,050**	**577,424**	**394,755**	**(51,382)**	**209,914**	**(300,473)**	**1,149,351**
Contingent liabilities and commitments	**128,041**	**180,458**	**190,082**	**98,718**	**16,886**	**89,002**	**326,060**	**1,029,247**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Investments in financings and receivables past due but not impaired

Investments in financings and receivables less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of investments in financings by class and receivables that were past due but not impaired were as follows:

	Investments in financings							
2009	**Corporate financing**	**Banks and other financial institutions**	**Agricultural financing**	**Consumer financing**	**Government/ Public financing**	**Other financing**	**Accounts receivable**	**Total**
Past due up to 30 days	216,996	2,550	795	1,299	15,012	-	-	236,652
Past due greater than 90 days	14,700	-	-	-	-	-	52,518	67,218
Total	**231,696**	**2,550**	**795**	**1,299**	**15,012**	**-**	**52,518**	**303,870**
Fair value of collateral	212,227	2,550	795	1,278	14,968	-	-	231,818

The collateral comprises $215.9 million relating to financings of an equivalent amount where the coverage of client exposure is 100% or greater; and $15.9 million relating to financings of $20.2 million where the coverage is less than 100%.

	Investments in financings							
2008	**Corporate financing**	**Banks and other financial institutions**	**Agricultural financing**	**Consumer financing**	**Government/ Public financing**	**Other financing**	**Accounts receivable**	**Total**
Past due up to 30 days	102,268	6,396	5,938	1,908	9,140	22,546	70	148,266
Past due 30 – 60 days	129,656	993	2,576	34,174	-	16,924	197	184,520
Past due 60 – 90 days	34,188	8	1,597	24,722	-	20,082	32,143	112,740
Past due greater than 90 days	6,975	-	-	-	-	29,695	31,727	68,397
Total	**273,087**	**7,397**	**10,111**	**60,804**	**9,140**	**89,247**	**64,137**	**513,923**
Fair value of collateral	252,153	6,556	9,535	58,454	9,140	43,990	-	379,828

The collateral comprises $377.1 million relating to financings of an equivalent amount where the coverage of client exposure is 100% or greater; and $2.7 million relating to financings of $30.4 million where the coverage is less than 100%.

3. Financial risk management (continued)

e. Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by individual entities within the Group. Regular reports are submitted to management.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market. Non-trading portfolios primarily arise from the management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's available-for-sale investments and held to maturity investments.

(a) Foreign exchange risk
The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Boards of Directors of individual entities within the Group set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

(b) Profit rate risk
Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. Movement in the market profit rates may affect the earnings of the Group.

The profit rate exposure taken by the Group arises from investing in corporate, small medium enterprises, consumer financing, investment banking and interbank activities where variation in market profit rates may affect the profitability of the Group. The risk is managed by the management of individual entities. The profit rate dynamics are reviewed at regular intervals and repricing of assets and liabilities are adjusted to ensure that the spread of the subsidiary remains at an acceptable level.

The financings and deposits of the Group are broadly linked to the market variable rates and thus get automatically repriced on a periodic basis based on profit rate scenarios.

Price risk

Price risk is the risk that the fair values of the equities or the managed funds increase or decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks held as available for sale.

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (2008: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

	Impact on other components of equity	
Index	**2009**	**2008**
Pakistan stock exchange (+/-10%)	6,282	6,975

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Currency risk

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	USD/PKR	USD/EUR	USD/BHD	PKR/GBP
As at 31 December 2009				
Total currency exposure	136,746	126,165	28,052	32,407
Reasonable shift	0.14%	0.58%	0.01%	0.36%
Total effect on income/equity	**191**	**732**	**3**	**117**

	USD/PKR	USD/EUR	USD/BHD	PKR/GBP
As at 31 December 2008				
Total currency exposure	134,237	59,249	72,784	31,196
Reasonable shift	0.15%	0.8%	-	1.03%
Total effect on income/equity	**201**	**474**	**-**	**321**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Currency exposure

At 31 December 2009	United States Dollar	Pakistan Rupee	Swiss Franc	Bahrain Dinar	Euro	Other	Total
Cash and cash equivalents	170,389	83,302	2,146	128,655	274,365	6,840	665,697
Investments in financings	494,220	1,265,095	65	179,425	33,820	5,484	1,978,109
Investment securities	196,627	659,886	295	34,400	15,453	25,005	931,666
Investment properties	1,236	12,010	44,609	277,542	55,624	6,561	397,582
Accounts receivable	107,482	19,795	3,778	24,569	8,816	1,984	166,424
Investments in associates	103,003	968	-	520,602	-	77,793	702,366
Property, plant and equipment	29,998	27,577	724	49,432	14	-	107,745
Intangible assets	169,099	88,764	737	-	7	-	258,607
Deferred tax asset	-	5,665	-	-	-	-	5,665
Total assets	**1,272,054**	**2,163,062**	**52,354**	**1,214,625**	**388,099**	**123,667**	**5,213,861**
Customer current accounts	56,879	258,075	152	109,841	25,147	5,171	455,265
Customer investment accounts	462,466	1,138,278	-	69,356	35,729	10,325	1,716,154
Due to banks and financial institutions	300,857	416,021	36	22,187	752,389	1,528	1,493,018
Other borrowings	56,143	12,096	-	191,199	-	-	259,438
Accounts payable	159,622	71,085	5,258	104,453	3,492	565	344,475
Current tax payable	6	7,750	355	-	1	-	8,112
Total liabilities	**1,035,973**	**1,903,305**	**5,801**	**497,036**	**816,758**	**17,589**	**4,276,462**
Net on-balance sheet position	**236,081**	**259,757**	**46,553**	**717,589**	**(428,659)**	**106,078**	**937,399**
Contingent liabilities and commitments	**228,086**	**867,529**	**3,569**	**116,051**	**420,624**	**-**	**1,635,859**
At 31 December 2008							
Total assets	**1,589,628**	**1,777,932**	**60,062**	**1,070,511**	**744,928**	**137,365**	**5,380,426**
Total liabilities	**1,298,773**	**1,519,820**	**12,377**	**572,273**	**788,478**	**39,354**	**4,231,075**
Net on-balance sheet position	**290,855**	**258,112**	**47,685**	**498,238**	**(43,550)**	**98,011**	**1,149,351**
Contingent liabilities and commitments	**317,176**	**511,236**	**3,240**	**178,844**	**7,266**	**11,485**	**1,029,247**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2009	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	377,115	56,214	45,488	-	-	186,880	665,697
Investments in financings	498,177	399,500	536,275	376,041	141,024	27,092	1,978,109
Investment securities available for sale	12,310	47,376	501,759	104,186	66,306	199,729	931,666
Accounts receivable	398	389	13,180	157	-	152,300	166,424
Total financial assets	**888,000**	**503,479**	**1,096,702**	**480,384**	**207,330**	**566,001**	**3,741,896**
Liabilities							
Customer current accounts	-	-	-	-	-	455,265	455,265
Customer investment accounts	761,718	356,798	586,807	10,831	-	-	1,716,154
Due to banks and financial institutions	1,112,639	264,870	58,609	18,809	1,757	36,334	1,493,018
Other borrowings	225	82,098	165,250	11,865	-	-	259,438
Accounts payable	508	8,020	11,489	-	-	324,458	344,475
Total financial liabilities	**1,875,090**	**711,786**	**822,155**	**41,505**	**1,757**	**816,057**	**4,268,350**
Total repricing gap	(987,090)	(208,307)	274,547	438,879	205,573	(250,056)	(526,454)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2008	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	458,906	366,349	223,090	-	-	208,787	1,257,132
Investments in financings	778,428	416,914	378,923	333,758	133,692	16,319	2,058,034
Investment securities available for sale	21,335	237,799	30,938	44,868	-	282,288	617,228
Accounts receivable	1,450	197	4,190	23,190	-	132,746	161,773
Total financial assets	**1,260,119**	**1,021,259**	**637,141**	**401,816**	**133,692**	**640,140**	**4,094,167**
Liabilities							
Customer current accounts	-	-	-	-	-	470,602	470,602
Customer investment accounts	641,140	458,499	333,375	34,960	-	540	1,468,514
Due to banks and financial institutions	538,850	977,356	59,166	14,671	2,035	2,990	1,595,068
Other borrowings	59,662	85,218	252,507	6,350	6,337	-	410,074
Accounts payable	-	10,209	602	-	-	226,731	237,542
Total financial liabilities	**1,239,652**	**1,531,282**	**645,650**	**55,981**	**8,372**	**700,863**	**4,181,800**
Total repricing gap	20,467	(510,023)	(8,509)	345,835	125,320	(60,723)	(87,633)

As at 31 December 2009	USD	EURO	PKR	GBP	BHD
Total profit rate exposure	326,226	764,310	83,558	12,489	20,774
Reasonable shift	1.91%	2.10%	4.05%	1.87%	1.27%
Total effect on income	**6,231**	**16,051**	**3,384**	**234**	**264**

As at 31 December 2008	USD	EURO	PKR	GBP	BHD
Total profit rate exposure	525,228	693,055	231,491	12,424	13,533
Reasonable shift	2.12%	1.69%	6.40%	3.25%	2.38%
Total effect on income	**11,135**	**11,713**	**14,815**	**404**	**322**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

f. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and counter parties and fulfil commitments to lend.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by management in individual entities within the Group, includes:

a) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

b) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

c) Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

d) Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group also monitors unmatched medium-term assets.

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

As at 31 December 2009	Up to One month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	455,265	-	-	-	-	455,265
Customer investment accounts	772,035	255,251	215,171	515,155	1,099	1,758,711
Due to banks and financial institutions	1,153,688	266,929	61,056	14,684	1,757	1,498,114
Other borrowings	2,631	5,262	12,859	264,860	-	285,612
Accounts payable	212,391	15,825	22,432	93,901	-	344,549
Total liabilities liquidity risk	**2,596,010**	**543,267**	**311,518**	**888,600**	**2,856**	**4,342,251**
Total assets liquidity risk	**1,187,520**	**523,026**	**973,981**	**1,899,693**	**629,641**	**5,213,861**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2008	Up to One month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	470,602	-	-	-	-	470,602
Customer investment accounts	649,172	479,664	332,373	35,954	6,041	1,503,204
Due to banks and financial institutions	541,224	984,264	68,461	14,671	2,035	1,610,655
Other borrowings	1,880	88,977	328,018	32,595	6,722	458,192
Accounts payable	107,167	27,717	69,618	36,056	4,158	244,716
Total liabilities liquidity risk	**1,770,045**	**1,580,622**	**798,470**	**119,276**	**18,956**	**4,287,369**
Total assets liquidity risk	**1,401,684**	**1,070,981**	**905,860**	**813,759**	**1,188,142**	**5,380,426**

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios and investment securities available-for-sale.

Derivative liabilities

The Group's derivatives that will be settled on a gross basis include foreign exchange derivatives i.e. currency forward, currency swaps;

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2009	Upto One Month	One-three months	Three-twelve months	Total
Derivatives held for trading:				
- Foreign exchange derivatives:				
- Outflow	508	309	13	830
- Inflow	524	389	50	963

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. Financial risk management (continued)

The table below presents the cash flows payable by the Group in respect of its commitments.

As at 31 December 2009	No later than one year	One-five years	Over five years	Total
Acceptances and Endorsements	20,300	519	-	20,819
Guarantees and irrevocable letters of credit	349,855	18,090	21	367,966
Performance bid bonds	15,439	2,845	3	18,287
Other contingent	-	83	39,921	40,004
Undrawn facilities and other commitments to finance	306,689	81,036	-	387,725
Operating lease commitments	-	-	285	285
Open foreign currency positions	416,603	-	-	416,603
Repurchased and resale transactions	384,170	-	-	384,170
Total off-balance sheet liabilities	**1,493,056**	**102,573**	**40,230**	**1,635,859**

As at 31 December 2008	No later than one year	One-five years	Over five years	Total
Acceptances and Endorsements	30,119	-	-	30,119
Guarantees and irrevocable letters of credit	264,999	152,460	-	417,459
Performance bid bonds	13,574	5,930	3	19,507
Other contingent	-	-	44,012	44,012
Undrawn facilities and other commitments to finance	381,164	55,902	-	437,066
Operating lease commitments	-	163	448	611
Open foreign currency positions	6,740	-	15,000	21,740
Repurchased and resale transactions	58,733	-	-	58,733
Total off-balance sheet liabilities	**755,329**	**214,455**	**59,463**	**1,029,247**

Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Assets available to meet liabilities and to cover outstanding loan commitments include cash and bank balances; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition certain assets have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as undrawn facilities.

4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments in financings

The Group reviews its investments in financings to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower, or national or local economic conditions that correlate with defaults on assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value and impairment of available-for-sale equity investments

The Group may from time to time hold investments in financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by the Group management.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

On occasion the Group may hold investments whose fair value cannot be reliably measured. In those instances, full disclosure with a description of the investment, the carrying value and an explanation of why fair value cannot be measured reliably are included in the notes to the financial statements.

Fair value of investment properties

The Group may from time to time hold investment properties which are carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources.

Income taxes

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on estimated future cash flows and comparisons with market multiples. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

Pension obligations

The assumptions the Group has to make in connection with the actuarial calculation of pension obligations and pension expenses affect the discount rate, the expected annual rate of compensation increase, the expected employee turnover rate, the expected average remaining working life, the expected annual adjustments to pensions and the expected annual return on plan assets. These assumptions are subject to review by the Group. A change in any of these key assumptions may have an impact on the projected benefit obligations, funding requirements and periodic pension cost.

5. Segments

In the financial year 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Chief Executive Officer (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group and its associates are organised on a worldwide basis mainly into the following business segments:

- Retail and corporate banking incorporates private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, extending financing to clients and deployment of surplus funds in short term treasury and money market activities and private banking services;
- investment banking includes activities such as investments, mergers and acquisitions, underwriting and capital market activities;
- insurance includes life assurance, general insurance and reinsurance activities; and
- asset management encompasses managing clients' assets on either a fiduciary or trustee basis, carrying out securities trading operations, distributing mutual funds and holding deposits on behalf of clients.

Transactions between the business segments are on normal commercial terms and conditions and reported in the following tables net off inter segments eliminations.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5. Segments (continued)

For the year ended 31 December 2009

	Retail & Corporate Banking	Investment Banking	Insurance	Asset Mgmt	Others	Total
Operating income/(loss)	**99,860**	**(4,796)**	**-**	**10,119**	**867**	**106,050**
Expenses	(97,775)	(42,905)	-	(11,362)	(6,982)	(159,024)
Provision for impairment	(93,925)	(112,980)	-	-	-	(206,905)
Operating loss	**(91,840)**	**(160,681)**	**-**	**(1,243)**	**(6,115)**	**(259,879)**
Share of profit of associated companies	25,344	129	(2,447)	3,104	942	27,072
Profit/(loss) before income taxes	**(66,496)**	**(160,552)**	**(2,447)**	**1,861**	**(5,173)**	**(232,807)**
Taxes	239	1	-	(336)	(466)	(562)
Profit/(loss) after income taxes	**(66,257)**	**(160,551)**	**(2,447)**	**1,525**	**(5,639)**	**(233,369)**
Relating to minority interests	626	885	-	-	123	1,634
Relating to equity holders of the Bank	(66,883)	(161,436)	(2,447)	1,525	(5,762)	(235,003)
	(66,257)	**(160,551)**	**(2,447)**	**1,525**	**(5,639)**	**(233,369)**
At 31 December 2009						
Segment assets	**3,131,231**	**1,344,851**	**-**	**1,564**	**33,848**	**4,511,494**
Investments in associated companies	**483,028**	**79,437**	**74,650**	**61,242**	**4,010**	**702,367**
Segment liabilities	**2,922,932**	**1,345,282**	**-**	**914**	**7,334**	**4,276,462**
Other segments						
Depreciation	(5,413)	(7,640)	-	(396)	(200)	(13,649)
Amortisation of intangibles	(20,093)	(303)	-	-	(1)	(20,397)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5. Segments (continued)

For the year ended 31 December 2008

	Retail & Corporate Banking	Investment Banking	Insurance	Asset Mgmt	Others	Total
Operating income	**155,082**	**104,130**	**-**	**19,689**	**962**	**279,863**
Expenses	(60,923)	(53,581)	-	(14,539)	(9,830)	(138,873)
Provision for impairment	(28,360)	(24,515)	-	-	-	(52,875)
Operating loss	**65,799**	**26,034**	**-**	**5,150**	**(8,868)**	**88,115**
Share of profit of associated companies	10,914	-	(6,086)	(1,298)	2,795	6,325
Profit/(loss) before income taxes	**76,713**	**26,034**	**(6,086)**	**3,852**	**(6,073)**	**94,440**
Taxes	(6,259)	(3,092)	-	842	(769)	(9,278)
Profit/(loss) after income taxes	**70,454**	**22,942**	**(6,086)**	**4,694**	**(6,842)**	**85,162**
Relating to minority interests	67	56,643	-	6,284	-	62,994
Relating to equity holders of the Bank	70,387	(33,701)	(6,086)	(1,590)	(6,842)	22,168
	70,454	**22,942**	**(6,086)**	**4,694**	**(6,842)**	**85,162**
At 31 December 2008						
Segment assets	**3,381,424**	**1,331,190**	**-**	**4,368**	**50,842**	**4,767,824**
Investments in associated companies	**456,228**	**20,921**	**77,166**	**58,287**	**-**	**612,602**
Segment liabilities	**2,927,975**	**1,215,438**	**-**	**11,666**	**75,996**	**4,231,075**
Other segments						
Depreciation	(7,248)	(2,003)	-	(111)	(212)	(9,574)
Amortisation of intangibles	(19,252)	(47)	-	(188)	-	(19,487)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

6. Cash and cash equivalents

	2009	2008
Cash on hand	41,059	47,317
Cash at central banks – statutory reserve	64,475	67,098
Cash at central banks – current account	57,120	56,938
Cash at other banks	503,043	1,085,779
	665,697	**1,257,132**

The cash at Central Bank represents statutory reserve, which is not available for use.

7. Investments in financings

Investments in financings are included in the IAS 39 category of "Loans and Receivables".

	2009	2008
Investments in financings	1,987,637	1,960,827
Financings subject to finance leases	139,704	173,000
Provision for impairment	(149,232)	(75,793)
	1,978,109	**2,058,034**

Financings subject to finance leases

	2009		
	Gross investment in finance leases receivable	**Unearned future finance income on finance leases**	**Net investment in finance leases**
Not later than one year	67,511	(9,746)	57,765
Later than one year and not later than five years	93,578	(11,639)	81,939
	161,089	**(21,385)**	**139,704**

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $13.3 million at 31 December 2009.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

7. Investments in financings (continued)

Financings subject to finance leases

	2008		
	Gross investment in finance leases receivable	**Unearned future finance income on finance leases**	**Net investment in financ leases**
Not later than one year	85,376	(14,966)	70,410
Later than one year and not later than five years	116,803	(16,162)	100,641
Later than five years	2,584	(635)	1,949
	204,763	**(31,763)**	**173,000**

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $15.5 million at 31 December 2008.

8. Collateral received and re-pledged

Assets held as collateral against advances to financial institutions

	Fair value amount	
	2009	**2008**
Assets available to be repledged with obligation to return	178,855	43,787
	178,855	**43,787**

At 31 December 2009, assets available to be repledged with obligation to return include the following:

	2009	**2008**
Market treasury bills	174,838	36,331
Shares	4,017	7,456
	178,855	**43,787**

Repossessed collateral

The Group obtained assets by taking possession of collateral held as follows:

Nature of assets	**Carrying amount**	**Classification on statement of financial position**
2009		
Land	11,300	Investments in financing
	11,300	
2008		
Motor Vehicle	350	Investments in financing
	350	

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. Allowance account from credit losses

Allowance for impairment

Reconciliation of allowance account for losses on investments in financings by class of receivables is as follows:

	Investments in financings							
2009	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Balance at 1 January	65,085	-	1,509	9,015	-	184	4,234	80,027
Provision for impairment	60,042	6,525	352	24,160	-	2,846	20,128	114,053
Amounts recovered	(8,370)	-	-	(5,918)	-	(814)	(2,245)	(17,347)
Loans written-off as uncollectable	(116)	-	-	-	-	-	-	(116)
Foreign exchange	(4,422)	-	(102)	(744)	-	-	(55)	(5,323)
Balance at 31 December	**112,219**	**6,525**	**1,759**	**26,513**	**-**	**2,216**	**22,062**	**171,294**

Included in the above table are individual loan impairments and respective collateral, as follows:

	Investments in financings							
2009	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Individual loan impairments	109,387	8,713	1,225	21,033	-	2,772	20,651	163,781
Fair value of collateral	124,017	-	8,438	79,012	-	-	-	211,467

Impaired loans/financings at 31 December 2009 amounted to $262.5 million (31 December 2008: $121.1 million)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. Allowance account from credit losses (continued)

Allowance for impairment

2008	Investments in financings: Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Balance at 1 January	50,756	-	1,661	14,466	-	214	180	67,277
Provision for impairment	27,684	-	245	1,695	-	-	4,114	33,738
Amounts recovered	(727)	-	-	-	-	-	-	(727)
Reversal of impairment provision	(324)	-	-	(4,926)	-	-	-	(5,250)
Foreign exchange	(12,304)	-	(397)	(2,220)	-	(30)	(60)	(15,011)
Balance at 31 December	**65,085**	**-**	**1,509**	**9,015**	**-**	**184**	**4,234**	**80,027**

Included in the above table are individual loan impairments and respective collateral as follows:

2008	Investments in financings: Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Individual loan impairments	64,031	1,250	1,585	6,586	-	436	320	74,208
Fair value of collateral	69,471	-	5,506	17,742	-	-	-	92,719

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

10. Investment securities

	2009	2008
Investment securities available-for-sale	806,884	505,430
Investment securities held to maturity	108,381	111,798
Trading securities	16,401	-
	931,666	**617,228**

	2009	2008
Investment securities available-for-sale		
- Listed	153,764	123,740
- Unlisted	653,120	381,690
	806,884	**505,430**

	2009	2008
Gains from investment securities		
Derecognition of available-for-sale assets	9,258	4,093
	9,258	**4,093**

The movement in investment securities available-for-sale is summarised as follows:

	2009	2008
At 1 January	505,430	638,579
Additions	722,001	394,165
Disposals	(376,348)	(317,980)
Net gains/(losses) from changes in fair value	17,402	(82,820)
Exchange differences	(16,881)	(105,379)
Provision for impairment	(44,720)	(21,135)
At 31 December	**806,884**	**505,430**

The movement in investment securities held to maturity is summarised as follows:

	2009	2008
At 1 January	111,798	-
Additions	-	111,798
Maturity	(3,417)	-
At 31 December	**108,381**	**111,798**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. Fair value of financial instruments

a) Financial instruments measured at fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. No amount was recognised in the consolidated income statement during 2009 for the change in fair value estimated using a valuation technique (2008: $Nil).

b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value.

	Carrying amount		Fair value	
	2009	2008	2009	2008
Financial assets				
Investments in financings				
Corporate financing	844,840	894,676	777,850	827,531
Banks and other financial institutions	185,806	41,187	185,806	39,490
Agricultural financing	43,527	33,526	41,691	39,442
Consumer financing	189,232	240,516	179,482	305,299
Other financing	4,018	4,294	3,837	3,405
Investments securities	647,825	373,033	643,548	373,033
Financial liabilities				
Customer investment accounts				
Private individuals	256,658	256,646	254,091	253,657
Financial institutions	93,831	49,706	92,893	48,916
Corporate institutions	861,375	752,077	852,761	747,038
Due to banks and financial institutions	418,784	166,997	418,784	162,822
Other borrowings	12,095	13,078	12,095	13,044

Investments in financings

Investments in financings are stated net of provisions for impairment. The estimated fair value of investments in financings represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Other borrowings

Other borrowings include unsecured term finance certificate and short to medium term borrowings.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. Fair value of financial instruments (continued)

Fair value

In the opinion of the Group management, the fair value of those financial instruments which are measured at amortised cost in the consolidated statement of financial position and not listed above are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer financing and deposits, are linked to market variable rates and hence are being regularly repriced.

c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value

At 31 December 2009	Level 1	Level 2	Level 3	Total
Trading securities				
- Equity securities	9,055	-	-	9,055
- Debt securities	-	7,346	-	7,346
Investment securities - available for sale				
- Equity securities	109,818	1,568	184,851	296,237
- Debt securities	17,589	491,870	1,188	510,647
Derivatives held for trading	963	-	-	963
Total assets	**137,425**	**500,784**	**186,039**	**824,248**
Derivatives held for trading	830	-	-	830
Total liabilities	**830**	**-**	**-**	**830**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. Fair value of financial instruments (continued)

Reconciliation of Level 3 Items

	Investment securities available for sale		Total assets
	Equity securities	Debt securities	
At 1 January 2009	**236,048**	**1,188**	**237,236**
Total profit/(losses)			
- Profit/(loss)	(36,826)	-	(36,826)
- Other comprehensive income/(loss)	(875)	-	(875)
Purchases	84,741	-	84,741
Sales	(95,210)	-	(95,210)
Issues	-	-	-
Settlements	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	(3,027)	-	(3,027)
At 31 December 2009	**184,851**	**1,188**	**186,039**
Total profit/(losses) for the year included in profit or loss for financial assets/liabilities held at 31 December 2009	**(22,308)**	**-**	**(22,308)**

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

An assumed±10% movement in the fair value of level 3 measurement has the following impact:

	Impact in equity	
At 31 December 2009	**Favourable changes**	**Unfavourable changes**
Investment securities - available for sale	18,696	(18,696)

12. Investment properties

	2009	2008
At 1 January	273,786	213,067
Additions	135,352	52,256
Disposals	(12,066)	(98,178)
Transfer to property, plant and equipment (note 15)	-	(1,215)
Fair value gains during the year (note 26)	-	111,772
Net exchange differences	510	(3,916)
At 31 December	**397,582**	**273,786**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

12. Investment properties (continued)

Rental income from investment property amounting to $2.5 million (2008: $2.3 million) has been included in the consolidated income statement under income from investment property. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income amounted to $0.2 million (2008: $1 million).

Investment property under operating leases

The Group leases out part of its investment property under operating leases. The leases are for terms of one to five years.

The future aggregate minimum rentals receivable under non cancellable operating leases are as follows:

	2009	2008
Not later than one year	1,322	1,328
Later than one year and not later than five years	1,651	2,542
	2,973	**3,870**

13. Accounts receivable

	2009	2008
Accounts receivable	135,531	147,063
Provision for impairment	(22,062)	(4,234)
Receivable from funds under management	3,377	8,506
Receivables from affiliated companies (note 40)	43,755	5,047
Receivables from associated companies (note 40)	4,860	4,432
Derivative financial instruments	963	959
	166,424	**161,773**

Included in accounts receivable are prepayments in the amount of $11.4 million (2008: $11.5 million) and loans to employees and directors of $10.5 million (2008: $9 million). The remaining balance relates primarily to fees, deposits and other receivables.

Derivative financial instruments

	2009	
	Contractual amount	**Fair value**
Foreign exchange derivatives held for trading:		
Currency forwards	70,674	963

	2008	
	Contractual amount	**Fair Value**
Foreign exchange derivatives held for trading:		
Currency forwards	69,814	959

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. Investments in associates

	2009	2008
At 1 January	612,602	194,549
Share of profit before tax	27,390	7,285
Share of tax	(318)	(960)
Dividends received	(12,966)	(1,523)
Share of fair value reserve	(9,676)	(5)
Additions	79,065	435,533
Reclassifications	16,099	(16,367)
Amortisation of intangibles	(6,312)	(5,500)
Exchange differences	(3,518)	(410)
At 31 December	**702,366**	**612,602**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Revenue	Profit/ (loss)	Published price quotation	------ % owned ------ Voting	Economic
2009							
Unlisted:							
Solidarity Group Holding B.S.C. (C) (Bahrain)	327,333	112,023	11,500	(7,243)	-	34	34
First Leasing Bank B.S.C. (C) (Bahrain)	160,739	53,453	11,993	3,479	-	31	31
Citic International Assets Management Limited(Hong Kong)	349,266	25,322	41,329	11,006	-	20	20
Sanpak Engineering (Pakistan)	7,707	4,037	483	(6)	-	31	31
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	24,119	10,422	14,169	3,807	-	23	23
*Misr Company for Packing Materials" Egywrap" (Egypt)	30,696	9,879	24,624	4,286	-	23	23
Faysal Asset Management Limited (Pakistan)	3,587	342	1,684	343	-	30	30
*Ithraa Capital (Saudi Arabia)	25,065	792	1,027	(2,392)	-	23	23
Naseej B.S.C. (C) (Bahrain)	297,947	10,321	2,358	1,156	-	34	34
*Chase Manara B.S.C. (C)	5,207	24	119	(127)	-	40	40
*Islamic Trading Company E.C (Bahrain)	12,255	206	1,651	1,081	-	24	24
*Emerging Markets Partnership Bahrain B.S.C. (C) (Bahrain)	3,518	1,855	5,809	371	-	40	40
Listed:							
BBK B.S.C. (Bahrain)	6,044,806	5,432,090	245,523	92,883	BD 0.408	25	25

* For some of the associates, published information is not available for 31 December 2009 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2009. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. Investments in associates (continued)

Name and Country of incorporation	Assets	Liabilities	Revenue	Profit/ (loss)	Published price quotation	------ % owned ------ Voting	Economic
2008							
Unlisted:							
Solidarity Group Holding B.S.C. (C) (Bahrain)	335,621	92,573	10,327	(19,226)	-	34	34
First Leasing Bank B.S.C. (C) (Bahrain)	179,654	76,290	8,364	2,575	-	21	21
Citic International Assets Management Limited(Hong Kong)	372,994	60,956	6,414	(11,848)	-	20	20
Sanpak Engineering (Pakistan)	7,477	3,354	422	(52)	-	31	31
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	27,739	16,935	17,926	1,732	-	23	23
*Misr Company for Packing Materials" Egywrap" (Egypt)	39,297	20,683	24,085	3,008	-	23	23
Faysal Asset Management Limited (Pakistan)	3,555	404	1,932	439	-	30	30
*Ithraa Capital (Saudi Arabia)	30,665	150	-	-	-	23	23
Listed:							
BBK B.S.C. (Bahrain)	5,744,788	5,189,692	304,180	71,645	BD 0.501	25	25

* For some of the associates, published information is not available for 31 December 2008 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2008. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

Included in investment in associates at 31 December 2009 is $150.3 million (2008: $150.3 million) of goodwill. The movement is as follows:

	2009	2008
At 1 January	150,274	3,665
Additions (note 41)	-	146,609
At 31 December	**150,274**	**150,274**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

15. Property, plant and equipment

	Land and buildings	Leasehold property, furniture, equipment, aircrafts and motor vehicles	Total
Cost			
At 1 January 2009	59,325	95,298	154,623
Additions	1,901	6,175	8,076
Provision for impairment	-	(5,207)	(5,207)
Disposals	(3,048)	(3,289)	(6,337)
Exchange differences	(1,821)	(2,218)	(4,039)
At 31 December 2009	**56,357**	**90,759**	**147,116**
Depreciation			
At 1 January 2009	1,056	29,449	30,505
Charge for the year	148	13,501	13,649
Disposals	(187)	(1,861)	(2,048)
Exchange differences	(680)	(2,055)	(2,735)
At 31 December 2009	**337**	**39,034**	**39,371**
Net book amount			
At 31 December 2009	**56,020**	**51,725**	**107,745**
Cost			
At 1 January 2008	60,751	95,081	155,832
Additions	1,904	9,635	11,539
Transfer from investment properties (note 12)	1,215	-	1,215
Disposals	(1,420)	(1,641)	(3,061)
Exchange differences	(3,125)	(7,777)	(10,902)
At 31 December 2008	**59,325**	**95,298**	**154,623**
Depreciation			
At 1 January 2008	1,232	23,670	24,902
Charge for the year	125	9,449	9,574
Disposals	(62)	(277)	(339)
Exchange differences	(240)	(3,393)	(3,633)
At 31 December 2008	**1,055**	**29,449**	**30,504**
Net book amount			
At 31 December 2008	**58,270**	**65,849**	**124,119**

Land and buildings at 31 December 2009 include cost of land aggregating to $52.9 million (2008: $54.9 million). Leasehold property at 31 December 2009 aggregated $17.7 million (2008: $17.4 million), less accumulated depreciation of $8.1 million (2008: $6.2 million).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

16. Intangible assets

	Goodwill	Customer relations	Core deposits	Other*	Total
Year ended 31 December 2009					
Opening net book amount	82,757	68,040	118,549	6,406	275,752
Additions	-	-	-	1,962	1,962
Disposals	-	-	-	(366)	(366)
Exchange differences	(1,074)	(820)	(2,650)	(112)	(4,656)
Amortisation charge	-	(4,185)	(7,776)	(2,124)	(14,085)
Closing net book amount	**81,683**	**63,035**	**108,123**	**5,766**	**258,607**
At 31 December 2009					
Cost	81,683	77,160	134,369	12,401	305,613
Accumulated amortisation	-	(14,125)	(26,246)	(6,635)	(47,006)
Net book amount	**81,683**	**63,035**	**108,123**	**5,766**	**258,607**
Year ended 31 December 2008					
Opening net book amount	92,545	77,954	144,854	10,951	326,304
Additions	-	-	-	1,394	1,394
Disposals	(1,463)	-	-	(3,438)	(4,901)
Impairment	(3,252)	-	-	-	(3,252)
Exchange differences	(5,073)	(5,729)	(18,528)	(476)	(29,806)
Amortisation charge	-	(4,185)	(7,777)	(2,025)	(13,987)
Closing net book amount	**82,757**	**68,040**	**118,549**	**6,406**	**275,752**
At 31 December 2008					
Cost	82,757	77,980	137,019	10,917	308,673
Accumulated amortisation	-	(9,940)	(18,470)	(4,511)	(32,921)
Net book amount	**82,757**	**68,040**	**118,549**	**6,406**	**275,752**

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	2009	2008
Shamil Bank of Bahrain B.S.C. (C)	66,070	66,070
Faysal Bank Limited	15,613	16,687
	81,683	**82,757**

*Other intangible assets included $4.8 million at 31 December 2009 (2008: $4.9 million) of computer software related to core banking systems, which is being amortised over five years.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

17. Customer current accounts

	2009	2008
Individuals	118,812	130,809
Corporate institutions	335,051	297,824
Financial institutions	1,402	41,969
	455,265	**470,602**

18. Customer investment accounts

	2009	2008
Individuals	256,658	263,379
Corporate institutions	1,365,665	1,147,315
Financial institutions	93,831	57,820
	1,716,154	**1,468,514**

Included in customer investment accounts, deposit of $37 million pledged against the receivable from a related party.

19. Due to banks and financial institutions

Due to banks and financial institutions mainly represents money market deposits having maturities of less than one year.

20. Other borrowings

	2009	2008
Term finance	12,095	13,078
Other debts	247,343	396,996
	259,438	**410,074**

Term finance represents seven-year floating rate unsecured term finance certificates issued by a subsidiary.

Other debts include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to three years.

21. Collateralised borrowings

Financial assets pledged to secure liabilities:

At 31 December 2009, there were collateralized borrowings in aggregate $213 million (2008: $281.2 million).

Cash dividends amounting to $2.9 million (2008:Nil) on certain shares pledged as collateral was directly received by the lender during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

22. Accounts payable

	2009	2008
Accounts payable and other provisions	100,866	77,899
Advance received from customers	20,531	37,888
Demand drafts	17,456	19,509
Accruals	43,972	36,949
Security deposits on consumer leases	38,916	45,406
Payable to funds under management	114,250	12,905
Payables to affiliated companies (note 40)	4,228	4,387
Payables to associated companies	836	-
Derivative financial instruments	830	908
Payables to directors	33	16
Deferred income	2,445	1,623
Finance lease liabilities	112	52
	344,475	**237,542**

Liabilities against assets subject to finance leases comprise:

	2009		
	Minimum lease payments	**Financial charges for future periods**	**Principal outstanding**
Not later than one year	60	-	60
Later than one year and not later than five years	52	-	52
	112	**-**	**112**

Liabilities against assets subject to finance leases comprise:

	2008		
	Minimum lease payments	**Financial charges for future periods**	**Principal outstanding**
Not later than one year	53	(1)	52
Later than one year and not later than five years	-	-	-
	53	**(1)**	**52**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

22. Accounts payable (continued)

Derivative Financial Instruments

	2009	
	Contractual Amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	126,519	830

	2008	
	Contractual amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	47,425	908

23. Tax liability

Current tax payable

	2009	2008
At 1 January	7,137	9,175
Transfer from/(to) deferred tax liability	48,268	(3,246)
Charge for the period	562	9,278
Payments made	(45,835)	(5,782)
Exchange differences	(2,020)	(2,288)
At 31 December	**8,112**	**7,137**

Deferred tax (asset)/liability

	2009	2008
At 1 January	42,138	60,372
Transfer (to)/from current tax payable	(48,268)	3,246
Changes due to fair value reserve	1,802	(9,583)
Exchange differences	(1,337)	(11,897)
At 31 December	**(5,665)**	**42,138**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

24. Income from investments in financings

	2009	2008
Income from investments in financings	181,419	191,521

25. Fee and commission income

	2009	2008
Arrangement fees	6,379	8,472
Financing fees	10,071	8,639
Documentary credit fees	4,418	3,192
Structuring fees and commissions	-	7,999
Other fees	13,957	16,765
Selling commission	-	1,099
	34,825	**46,166**

26. Income from investment properties

	2009	2008
Fair value gain on investment properties	-	111,772
Rental income from investment properties	2,514	2,321
Realised gain on sale of investment properties	-	175
Exchange difference	319	-
	2,833	**114,268**

27. Net trading income

	2009	2008
Income from foreign exchange trading	3,063	5,065
(Loss)/gain on trading securities	1,795	(1,004)
	4,858	**4,061**

Foreign exchange trading includes gains and losses from spot and forward contracts translated from foreign currency assets and liabilities.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

28. Dividend income

	2009	2008
Investment securities available-for-sale	9,912	27,962

29. Staff costs

	2009	2008
Salaries and other benefits	64,144	63,624
Share based payments	-	(5,321)
Social security and other statutory costs	3,464	3,393
Post retirement benefits	1,347	991
	68,955	**62,687**

Other benefits include housing allowance, relocation expense, medical and health expense, training, end of service benefit costs, and other costs.

30. General and administrative expenses

	2009	2008
Office expenses	27,692	25,534
Professional fees	13,218	12,647
Others	11,926	14,235
	52,836	**52,416**

31. Taxes

	2009	2008
Current taxes	48,830	6,032
Deferred taxes	(48,268)	3,246
	562	**9,278**

The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction. Consequently, the effective tax rate on consolidated income may vary from year to year, according to the source of earnings. Most of the Group companies operate in tax free jurisdictions.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31. Taxes (continued)

Reconciliation between the reported income tax and the amount computed, using the weighted average of applicable domestic corporate tax rates, is as follows:

	2009	2008
Net accounting profit/(loss)	(219,822)	108,166
Weighted average applicable domestic corporate tax rate	-	9%
Weighted average applicable domestic corporate tax	3,569	10,057
Effect of revenue taxed at a different rate than domestic corporate tax rate	(3,007)	(779)
Effective tax	**562**	**9,278**

32. Minority interests

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	2009		2008	
	Minority %		Minority %	
Faysal Bank Limited	34.28	80,492	34.28	80,190
Health Island B.S.C (C)	50.00	110,628	50.00	110,736
Ithmaar Aviation Lease One (Dublin) Ltd.	5.00	267	5.00	773
Cityview Real Estate Development B.S.C (C)	49.00	1,575	49.00	1,559
Marina Reef Real Estate Development B.S.C (C)	49.00	4,786	49.00	4,679
Sakana Holistic Housing Solutions B.S.C (C)	50.00	28,166	50.00	27,461
Others	-	50	-	44
		225,964		**225,442**

Minority interests in the consolidated income statement of $1.6 million (2008: $63 million) represent the minority shareholders' share of the earnings of these subsidiaries for the respective years.

In March 2008, the Group's increase in the voting interest in Sakana Holistic Housing Solutions B.S.C (C) has resulted in it being classified as a subsidiary.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

33. Share capital

	Number of shares (thousands)	Share capital
Issued		
At 1 January 2008	2,149,896	537,474
Treasury shares purchased	(119,800)	(29,950)
Treasury shares sold	81,729	20,432
At 31 December 2008	2,111,825	527,956
Bonus issue	217,452	54,362
Treasury shares purchased	(77,286)	(19,322)
Treasury shares sold	23,338	5,836
At 31 December 2009	**2,275,329**	**568,832**

The Bank owned 116,621,426 of its own shares at 31 December 2009 (2008: 69,408,790). The shares were acquired through various purchases and sales during the year on the Stock Exchange for a net consideration of $7.5 million (2008 $16 million). The nominal value of the net shares acquired amounting to $13.5 million (2008: $9.5 million net sale) has been included in share capital and the balance of the consideration has been included in the share premium. The shares are held as Treasury shares and the Bank has the right to reissue these shares at a later date.

34. Reserves

Statutory reserves

In accordance with the requirements of the Bahrain Commercial Companies Law, an amount of at least 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as that reserve represents 50% of the paid up share capital of the Bank. The reserve can be utilised for payment of dividends up to 5% of the issued and fully paid up share capital.

General reserve

General reserve represents appropriations from retained earnings.

Retained earnings

Consolidated retained earnings include the following reserves of the subsidiaries – statutory reserve amounting $20.1 million (2008: $17.3 million) and fiduciary reserve amounting $11 million (2008: $11.6 million).

35. Proposed dividend

No dividend is proposed for 2009. A stock dividend for 2008 of one share for every ten shares held amounting to $54.3 million was issued in 2009

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

36. Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	2009	2008
Net profit/(loss) attributable to shareholders	(235,003)	22,168
Weighted average number of issued and fully paid up ordinary shares ('000)	2,289,593	2,344,139
Basic and diluted earnings per share	**US cts (10.26)**	**US cts 0.95**

37. Capital management

The table below summarises the composition of regulatory capital and the consolidated ratios of the Bank for the years ended 31 December 2009 and 2008. Effective from 1 January 2008, the Bank has successfully implemented Basel II regulations issued by Central Bank of Bahrain.

	2009	2008
Tier 1 capital	711,061	800,131
Tier 2 capital	74,115	120,236
Total eligible capital	**785,176**	**920,367**
Risk-weighted assets:		
Credit risk weighted exposures	5,304,296	5,547,783
Market risk weighted exposures	203,498	277,775
Operational risk weighted exposures	640,731	562,068
Total Risk weighted exposures	**6,148,525**	**6,387,626**
Capital adequacy ratio	**12.77%**	**14.41%**

38. Funds under management

Funds under management aggregated to $2.1 billion (2008: $2 billion) at 31 December 2009 and represented amounts invested by clients and placed with funds managed by the Group. These funds are invested without recourse to the Group. The Group earned fees of approximately $5.4 million associated with such funds in 2009 (2008: $16.9 million).

At 31 December 2009, the Group had amounts due to funds under management of $124.5 million (2008: $12.2 million) and due from funds under management of $147 million (2008: $405 million).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

39. Retirement benefit plans

Substantially all employees of the Group's European incorporated subsidiaries are covered either by insured or state pension plans. In accordance with local practice, no pension plans exist in certain countries in which the Group operates.

The Group's principal retirement benefit plans are in Switzerland and are defined benefit plans. The assets of the funded plans are held in separate trustee administered funds. These plans are valued by independent actuaries every year using the projected unit credit method.

The assumptions used in the actuarial valuations for 2009 and 2008 are the best estimates of the main parameters influencing the pension liability and are detailed as follows:

	2009	2008
	%	%
Standard financial cost rate	3.50	3.20
Expected long-term rates of return on plan assets	3.60	3.80
Rate of increase in compensation	2.00	2.00
The funded status of the Group's pension plans is as follows:		
Projected benefits obligations	57,627	57,065
Plan assets at fair values	(60,671)	(56,263)
Funded status	(3,044)	802
Unrecognised actuarial loss /(gain)	3,528	(98)
Liability in the statement of financial position	**484**	**704**
Net periodic pension cost consists of the following:		
Service costs	2,089	2,020
Financial costs	1,833	1,518
Expected return on assets	(1,987)	(1,963)
Total cost	1,935	1,575
Employee contributions	(588)	(584)
Net periodic pension cost	**1,347**	**991**
Movement in the liability recognised in the statement of financial position:		
At 1 January	704	1,133
Exchange differences	592	651
Net periodic pension cost	1,347	991
Employer contributions	(2,159)	(2,071)
At 31 December	**484**	**704**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

39. Retirement benefit plans (continued)

The movement in the defined benefit obligation over the year is as follows:

	2009	2008
Beginning of the year	57,065	48,901
Service costs	2,089	2,020
Financial costs	1,833	1,518
Employee contributions	588	584
Actuarial gain	(2,867)	(444)
Benefits paid	(2,054)	1,508
Premiums paid	(476)	(457)
Exchange differences	1,449	3,435
End of year	**57,627**	**57,065**

The movement in the fair value of plan assets of the year is as follows:

Beginning of the year	56,263	48,397
Expected return on plan assets	1,987	1,963
Actuarial loss/(gain)	761	(1,213)
Employer contributions	2,159	2,071
Employee contributions	588	584
Benefits paid	(2,054)	1,508
Premiums paid	(476)	(457)
Exchange differences	1,443	3,410
End of year	**60,671**	**56,263**
Actual return on plan assets	**2,712**	**775**

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns on fixed rate investments are based upon gross redemption yields as at the date of the statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Expected contributions to post employment benefit plans for the year ending 31 December 2010 is $1.9 million (2009: $2.2 million).

As at 31 December	2009	2008	2007	2006	2005	2004
Present value of defined benefit obligation	(57,627)	(57,065)	(48,901)	(42,911)	(32,676)	(31,627)
Fair value of plan assets	60,671	56,263	48,397	41,375	29,006	29,165
Surplus/(deficit)	3,044	(802)	(504)	(1,536)	(3,670)	(2,462)
Experience adjustments on plan assets	761	(1,213)	70	(1,736)	(1,682)	788
Experience adjustments on plan liabilities	(1,560)	(444)	(557)	(2,168)	3,280	(615)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

40. Related party transactions and balances

Related parties include shareholders, directors, associated companies, affiliated companies and other companies, whose ownership and management is common with the Bank or its subsidiaries and associates. A number of transactions are entered into with related parties in the normal course of business. These include loans, current and investment accounts. Transactions and balances disclosed with associated companies are those with companies in which the Bank owns 20% to 50% of the voting rights and over which it exerts significant influence, but does not have control. Transactions with other related parties, which consist of Dar Al-Maal Al-Islami Trust and its subsidiaries are disclosed as affiliated companies. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

a. Loans to key management personnel

	2009	2008
Loans		
Loans outstanding at 1 January	1,069	732
Loans advanced during the year	-	579
Loan repayments during the year	(408)	(258)
Foreign exchange	(41)	16
Loans outstanding at 31 December	**620**	**1,069**

The loans advanced to key management personnel bear no return, are unsecured and are repayable over varying periods up to 2011.

b. Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2009 of $9.7 million (2008: $9 million).

c. Current and investments accounts

	Associated companies		Affiliated companies	
For the year ended	**2009**	**2008**	**2009**	**2008**
Amounts payable to:				
DMI Services N.V.	-	-	455	4,550
Islamic Investment Company of the Gulf (Bahamas) Limited	-	-	105,203	11,743
Gulf Company for Financial Investments	-	-	2,624	2,558
Naseej B.S.C. (C)	234,367	-	-	-

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

40. Related party transactions and balances (continued)

	Associated companies		Affiliated companies	
For the year ended	2009	2008	2009	2008
Amounts receivable from:				
Solidarity Group Holding B.S.C. (C) (Bahrain)	4,886	4,433	-	-
DMI Services N.V.	-	-	19,192	13,954
Dar Al-Maal Al-Islami Trust	-	-	192,415	196,077
Islamic Investment Company of the Gulf (Bahamas) Limited	-	-	77,137	11,325
Egyptian Company for Business and Trade	-	-	830	829
Expense on current and investment accounts				
Gulf Company for Financial Investments	-	-	66	50
Islamic Investment Company of the Gulf (Bahamas) Limited	-	-	10,135	57
d. Other revenue				
Dar Al-Maal Al-Islami Trust	-	-	5,164	8,516
DMI Services N.V.	-	-	11,435	9,416
Islamic Investment Company of the Gulf (Bahamas) Limited	-	-	2,542	6,962
Faysal Asset Management Limited (Pakistan)	4	55	-	-
Funds under management - Shamil Bank of Bahrain	-	-	-	8,100

The fees paid by DMI Services N.V. represented the recovery of certain costs incurred on its behalf by a subsidiary company which were included as a reduction of staff costs and administrative expenses.

e. Key management compensation

	2009	2008
Salaries and other benefits	12,717	15,499
Post-employment benefits	359	639
Other long term benefits	1,415	937
	14,491	**17,075**

f. Directors' sitting fees

Directors' sitting fees for 2009 amounted to $0.5 million (2008: $0.5 million).

g. Indemnity

Dar Al-Maal Al-Islami Trust has provided indemnities up to $2.5 million (2008: $3.5 million) in respect of any shortfall in the carrying values which may be realised on certain investments held by subsidiaries.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

41. Acquisitions and disposals

Acquisition of associates

On 18 February 2008 the Group acquired 147,637,621 shares in BBK B.S.C. ("BBK") for a total consideration of Bahraini Dinars 123.6 million ($329.6 million), representing a 19.1% equity interest. From that date till 31 December 2008, the Group acquired a further 58,125,415 shares (including 7,438,892 bonus shares) for a total consideration of Bahraini Dinars 35.8 million ($97.9 million), being equity interest of 6.28%.

At 31 December 2009 the Group was entitled to a voting and equity interest of 25.38% (2008: 25.38%).

The Group has performed assessment of the fair values of the BBK's tangible and intangible assets, liabilities and contingent liabilities as on the date of acquisition. The excess of consideration over the fair value of the net assets acquired amounting to $146.6 million has been included as goodwill under investments in associates.

Purchase consideration	427,466
Fair value of net assets acquired	(280,857)
Goodwill	146,609

The following table provides fair value of net assets of BBK as on the date of acquisition.

	2008
	Fair value
Assets	
Cash and balances with central bank	728,926
Treasury bills	141,369
Investment securities	1,254,732
Deposits and due from banks and other financial institutions	957,851
Loans and advances to customers	3,174,122
Investment in associated company and joint venture	34,859
Interest receivable and other assets	52,809
Premises and equipment	51,865
Intangible assets	533,877
Total assets acquired	**6,930,410**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

41. Acquisitions and disposals (continued)

Liabilities	
Deposits and due to banks and other financial institutions	1,734,141
Borrowings under repurchase agreements	70,759
Term borrowings	900,000
Customers' current, savings and other deposits	3,010,225
Interest payable and other liabilities	108,679
Total liabilities assumed	**5,823,804**
Net assets	**1,106,606**
Net assets acquired (25.38%)	**280,857**
Purchase consideration settled in cash	**427,466**

The fair values of net assets acquired are not materially different from the carrying value in the books of BBK as on the date of acquisition.

42. Contingent liabilities and commitments

Contingent liabilities

	2009	2008
Acceptances and endorsements	20,819	30,119
Guarantees and irrevocable letters of credit	396,795	436,965
Customer claims	29,462	44,013
	447,076	**511,097**

As at 31 December 2009 DMI Administrative Services SA had a potential contingent liability not exceeding $0.3 million (2008: $1.1 million) in respect of its retirement benefit plan in the event that the plan assets attributable to individual members ultimately fall below their contractual entitlements.

Commitments

	2009	2008
Undrawn facilities, financing lines and other commitments to finance	1,188,783	518,150

Operating lease commitments

Commitments for operating leases include IT hardware, cars and office equipment.

The future minimum lease payments under non cancellable operating leases are as follows:

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

41. Acquisitions and disposals (continued)

	2009	2008
Not later than one year	159	231
Later than one year and not later than five years	126	380
	285	**611**

Significant net open foreign currency position	416,603	21,740

43 Current and non-current assets and liabilities

At 31 December 2009	Current	Non-current	Total
Cash and cash equivalents	665,680	17	665,697
Investments in financings	1,403,167	574,942	1,978,109
Investment securities	464,494	467,172	931,666
Investment properties	58,101	339,481	397,582
Accounts receivable	92,328	74,096	166,424
Investments in associates	-	702,366	702,366
Property, plant and equipment	522	107,223	107,745
Intangible assets	235	258,372	258,607
Deferred tax asset	-	5,665	5,665
Total assets	**2,684,527**	**2,529,334**	**5,213,861**
Customer current accounts	455,265	-	455,265
Customer investment accounts	1,206,033	510,121	1,716,154
Due to banks and financial institutions	1,476,577	16,441	1,493,018
Other borrowings	230	259,208	259,438
Accounts payable	250,574	93,901	344,475
Current tax payable	8,112	-	8,112
Total liabilities	**3,396,791**	**879,671**	**4,276,462**
Net assets	**(712,264)**	**1,649,663**	**937,399**
At 31 December 2008			
Total assets	**3,378,525**	**2,001,901**	**5,380,426**
Total liabilities	**4,083,985**	**147,090**	**4,231,075**
Net assets	**(705,460)**	**1,854,811**	**1,149,351**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

44. Subsidiaries

A listing of the Group's principal subsidiaries as at 31 December 2009 and 31 December 2008 are as follows:

	% owned		Country of
	Voting	Economic	Incorporation
Shamil Bank of Bahrain B.S.C. (C)	100	100	Kingdom of Bahrain
Faysal Bank Limited	65.72	65.72	Pakistan
Faisal Private Bank (Switzerland) S.A.	100	100	Switzerland
Faisal Finance (Jersey) Limited	100	100	Jersey
Cantara (Switzerland) S.A.	100	100	Switzerland
DMI Administrative Services S.A.	100	100	Switzerland
DMI (Jersey) Limited	100	100	Jersey
MFAI (Jersey) Limited	100	100	Jersey
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles
Rayten Holdings Limited	100	100	Jersey
Ithmaar Development Company Limited	100	100	Cayman Islands
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain
Sakana Holistic Housing Solutions B.S.C. (C)	63	50	Kingdom of Bahrain

45. Reorganization

The Extra Ordinary General Meeting of the Bank held on 4 November 2009 approved the reorganization with Shamil Bank of Bahrain B.S.C. (c) ("Shamil Bank"). This reorganization was also approved by the Extra Ordinary General Meeting of Shamil Bank held on 3 November 2009.

The reorganization does not change the shareholding of the Bank nor its control and ownership interests in Shamil Bank's business. The business, assets and liabilities of Shamil Bank, which hitherto was recorded under a separate Shamil Bank entity, subsequent to the reorganization, will be directly recorded in the books of the Bank. The reorganization will result in creation of a single Islamic bank with a retail license, under the Ithmaar brand.

The Bank and Shamil Bank have initiated the required steps to complete the regulatory, legal and other requirements for the reorganization.

As part of the reorganization, the Bank has taken measures to rationalize its Group structure. In particular it has decided to simplify its structure of investment holding entities. The overall impact on the consolidated statement of financial position and consolidated income statement is not expected to be material.

46. Comparative figures

Certain comparatives for segmental information have been reclassified to conform with the current year presentation.

Basel II Pillar III Disclosures

1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2009, presented in accordance with International Financial Reporting Standards (IFRS). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2009.

2. Basel II Framework

CBB has issued Basel II guidelines which are effective from January 2008. These guidelines have been issued for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a more risk based approach to the assessment of risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Methodology

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:
  - With respect to Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).
  - With respect to Ithmaar's Islamic banking subsidiaries incorporated in the Kingdom of Bahrain, full aggregation is performed of the risk weighted exposures and eligible capital as required under PCD module.
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Group Structure

The Group's consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. However, the CBB's consolidated capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries and associates with their basis of consolidation for capital adequacy purposes are as follows:

	Country of Incorporation	Ownership	Approach
Subsidiaries			
Faysal Bank Limited	Pakistan	65.72 per cent	Full Aggregation
Shamil Bank of Bahrain B.S.C. (C)	Kingdom of Bahrain	100 per cent	Full Aggregation
Associates			
BBK B.S.C	Kingdom of Bahrain	25.38 per cent	Pro rata Aggregation
First Leasing Bank B.S.C. (C)	Kingdom of Bahrain	30.66 per cent	Pro rata Aggregation

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

6. Consolidated Capital Structure for capital adequacy purpose

A Tier 1 Capital		
Issued and fully paid-up ordinary capital	568,832	
Reserves		
General reserve	122,340	
Retained profit brought forward	123,333	
Statutory reserve	38,090	
Share premium	161,128	
Others	(24,372)	
Minority interest in the equity of subsidiaries	158,094	
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	705,814	
Sub-Total	**1,853,259**	
Deductions:		
Current loss	(181,939)	
Goodwill	(239,243)	
Total Tier 1 capital before PCD deductions		**1,432,077**
B Tier 2 Capital		
Unrealized gains arising from fair valuations (45%)	1,601	
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	74,115	
Total Tier 2 capital before PCD deductions		**75,716**
C Total Available Capital (A+B)		**1,507,793**
D General deductions from available capital under PCD Module		
Significant minority investments in banking, securities and other financial entities which are pro-rata aggregated	197,475	
Deduction of unconsolidated financial subsidiaries where ownership is >50% and which are aggregated	487,133	
Excess amount over maximum permitted large exposure limit	38,009	
Total Deductible Items		**722,617**
E Total Eligible Capital (C-D)		**785,176**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

7. Disclosure of the regulatory capital requirements for credit risk under standardized approach

	Risk weighted assets	Capital requirement
Banks	14,290	1,715
Corporate Portfolio	33,697	4,044
Equity portfolio	350,323	42,039
Holding of Real estate	776,734	93,208
Other assets	442,485	53,098
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	3,686,607	442,392
Total	**5,304,136**	**636,496**

8. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and cash equivalents	665,697	1,041,989
Investments in financings	1,978,109	2,091,859
Investment securities	931,666	792,078
Accounts receivable	166,424	212,564
Other assets	1,046,199	940,093
Total on balance sheet credit exposure	**4,788,095**	**5,078,583**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	447,076	489,935
Financing commitments, Undrawn facilities and other credit related liabilities	1,188,783	818,513
Total off balance sheet credit exposure	**1,635,859**	**1,308,448**
Total credit exposure	**6,423,954**	**6,387,031**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2009.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. Geographical distribution of credit exposures

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and cash equivalents	106,673	430,809	107,571	7,470	13,174	665,697
Investments in financings	1,350,080	323,363	43,470	16,091	245,105	1,978,109
Investment securities	680,890	167,024	17,441	57,241	9,070	931,666
Accounts receivable	20,687	111,394	23,259	10,996	88	166,424
Other assets	181,083	732,424	132,692	-	-	1,046,199
Total on balance sheet items	**2,339,413**	**1,765,014**	**324,433**	**91,798**	**267,437**	**4,788,095**
Off balance sheet items	**1,062,300**	**118,840**	**399,560**	**5,262**	**49,897**	**1,635,859**
Total credit exposure	**3,401,713**	**1,883,854**	**723,993**	**97,060**	**317,334**	**6,423,954**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

10. Industry distribution of credit exposures

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private individuals	Textile	Others	Total
On-balance sheet items								
Cash and cash equivalents	614,081	-	-	51,596	-	-	20	665,697
Investments in financings	564,139	355,239	231,457	127,240	108,627	212,078	379,329	1,978,109
Investment securities	270,475	40,304	37,705	488,660	-	692	93,830	931,666
Accounts receivable	82,637	27,415	33,658	2,136	7,825	16	12,737	166,424
Other assets	389,913	4,009	558,936	92,881	-	-	460	1,046,199
Total on balance sheet items	1,921,245	426,967	861,756	762,513	116,452	212,786	486,376	4,788,095
Off balance sheet items	840,579	169,403	146,979	144,732	7,430	108,060	218,676	1,635,859
Total credit exposure	2,761,824	596,370	1,008,735	907,245	123,882	320,846	705,052	6,423,954

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. Maturity breakdown of credit exposures

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and cash equivalents	564,042	56,149	45,489	-	17	-	-	665,697
Investments in financings	555,358	401,583	446,226	466,657	83,897	24,388	-	1,978,109
Investment securities	5,309	51,448	417,190	396,712	61,007	-	-	931,666
Accounts receivable	76,570	7,000	8,759	70,479	3,616	-	-	166,424
Other assets	35	2,507	56,317	691,016	113,159	183,165	-	1,046,199
Total on balance sheet items	**1,201,314**	**518,687**	**973,981**	**1,624,864**	**261,696**	**207,553**	**-**	**4,788,095**
Off-balance sheet items	**1,197,552**	**166,514**	**128,990**	**102,573**	**40,230**	**-**	**-**	**1,635,859**
Total credit exposure	**2,398,866**	**685,201**	**1,102,971**	**1,727,437**	**301,926**	**207,553**	**-**	**6,423,954**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

12. Related-party balances under credit exposure

Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2009 were as follows:

Associated companies	4,886
Affiliated companies	289,574
Directors and key management	620
Total	**295,080**

Concentration of risk to individual counterparties where the credit exposure is in excess of the 15% individual obligor limit:

Non-banks	353,902
Total	**353,902**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

13. Past due and impaired investments in financings and related provisions for impairment

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	29,955	29,955	-
Agriculture	5,983	-	5,983
Construction	11,349	2,973	8,376
Financial	2,899	2,899	-
Trade	73,135	29,648	43,487
Personal / Consumer finance	7,454	2,754	4,700
Commercial real estate financing	38,975	27,485	11,490
Technology, media and telecommunications	1,152	1,152	-
Transport	3,630	703	2,927
Other sectors	87,984	51,663	36,321
Total	**262,516**	**149,232**	**113,284**
Ageing analysis			
Over 3 months up to 1 year	143,499	73,147	70,352
Over 1 year up to 3 years	83,373	48,178	35,195
Over 3 years	35,644	27,907	7,737
Total	**262,516**	**149,232**	**113,284**

Movement in impairment provisions	Impairment provisions
At 1 January 2009	75,793
Net charge during the year	
- Specific	87,823
- Collective	6,102
	93,925
Exchange and other movements	(20,486)
At 31 December 2009	**149,232**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. Past due and impaired investments in financings by geographical areas

Analysis by Geography	Gross exposure	Impairment provisions	Net exposure
Asia / Pacific	197,066	94,335	102,731
Middle East	24,428	23,491	937
Europe	41,022	31,406	9,616
Total	**262,516**	**149,232**	**113,284**

15. Credit exposures which are covered by eligible financial collateral

	Gross exposure	Eligible financial collateral
Banks	198,622	174,835
Corporate	833,578	164,307
Retail portfolio	255,480	41,292

16. Disclosures related to counterparty credit risk

For regulatory capital adequacy purposes, the Group uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel II capital adequacy framework.

The calculation of exposure at default, risk weighted assets and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analyzed by standard portfolio, is presented in the table below:

	Exposure at Default				
	Current exposure	Future exposure	Total exposure	Risk weighted assets	Capital requirement
Banks	775	884	1,659	368	44
Corporate	61	208	269	209	25
Total	**836**	**1,092**	**1,928**	**577**	**69**

17. Legal contingencies

At 31 December 2009, the Group had contingent liabilities towards customer claims aggregating to $29.5 million. The management is of the view that these claims are not likely to result into potential liabilities.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

18. Equity position in Banking book

At 31 December 2009, the Group's investment securities aggregated to $931.7 million. Out of the total investment securities, $170.2 million were listed investment securities and the remaining $761.5 million represented unlisted investment securities.

Cumulative realized gains from sale of investment securities during the year amounted to $9.3 million. Total unrealized gains recognized in the consolidated statement of comprehensive income amounted to $11 million.

At 31 December 2009, capital requirements using standardized approach aggregated to $0.5 million for listed investment securities and $41.5 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

19. Disclosure of regulatory capital requirements for market risk under the standardized approach

	Risk weighted assets	Capital Charge	Maximum	Minimum
Foreign exchange risk	87,563	10,508	11,375	9,876
Aggregation/Pro-rata aggregation of market risks from investments in banking and other financial entities	115,935	13,912	18,271	6,023
Total	**203,498**	**24,420**	**29,646**	**15,899**

20. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Group's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2009 aggregated to $76.9 million.

21. Tier 1 capital ratios and Total capital ratios

	Tier 1 Capital Ratio	Total Capital Ratio
Ithmaar Bank Consolidated	11.56%	12.77%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of Group's consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Shamil Bank of Bahrain B.S.C. (C)	16.82%	16.82%
Faysal Bank Limited	10.46%	12.10%