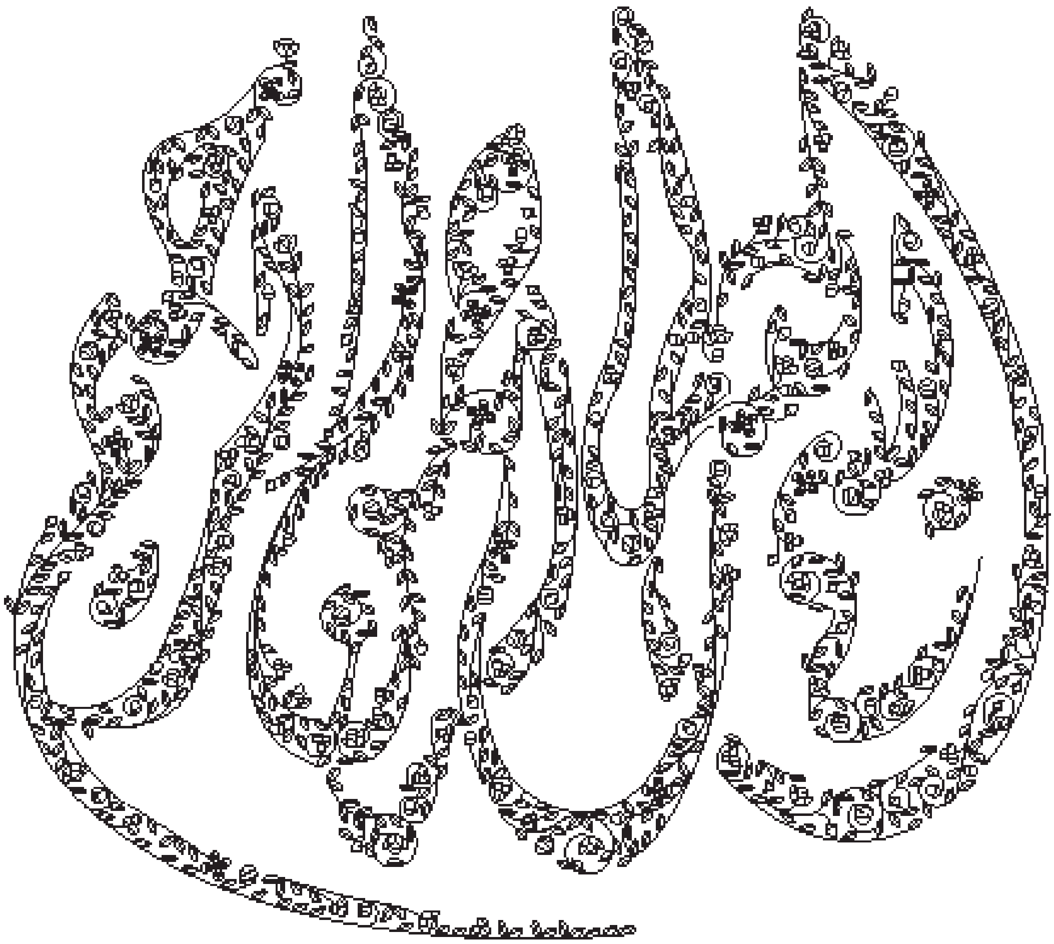
BisB بنك البحرين الإسلامي

2009

Annual Report



His Royal Highness
Prince Khalifa Bin
Salman Al Khalifa
The Prime Minister

His Majesty King
Hamad Bin
Isa Al Khalifa
The King of Bahrain

His Royal Highness
Prince Salman Bin
Hamad Al Khalifa
The Crown Prince and Deputy Supreme Commander

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بسم الله الرحمن الرحيم

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن
كُنتُم مُّؤْمِنِينَ

(سورة البقرة – الآية ٢٧٨ – الجزء ٢)

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

O ye who believe! Fear Allah, and give up what remains of your usury, if ye are indeed believers.

(Chapter 2 Al Baqara - Verse 278)

About BisB

A Pioneering Islamic Financial Institution

Bahrain Islamic Bank (BisB) is the first Islamic commercial bank in the Kingdom of Bahrain and the third in the world. The Bank operates in strict accordance to the principles of Islamic Sharia under a Retail banking licence from the Central Bank of Bahrain and is listed on the Bahrain Stock Exchange. The authorised capital is BD 100 million, with BD 60 million issued and fully paid-up.

Since inception in 1979, BisB has recorded steady growth, with total assets now exceeding BD 900 million. By combining its tradition with modern banking practices, underscored by technology and innovation, BisB has maintained its status as the leading Islamic commercial bank in Bahrain. This was reinforced by a rating assigned in 2008 by Moody's Investor Service, the first for any Islamic financial institution in Bahrain.

The Bank offers a range of high quality and innovative Sharia-compliant retail, corporate, institutional and investment banking services. These are delivered through a network of 12 branches and 46 ATMs, the largest of any Islamic bank in the Kingdom. As a pioneer of modern Islamic banking, BisB is committed to continuing its contribution to the development of the Islamic financial services sector in Bahrain, and to the growth of Islamic banking worldwide.

Vision and Mission

Our vision is to be the best Sharia'a compliant financial solutions provider.

Our Mission is to leverage our core competencies of customer intimacy, service, leadership and product innovation, in order to achieve the expectations of our stakeholders.

Khalid Abdulla Al Bassam

Chairman's Statement

In the name of Allah, the Most Beneficent, the Most Merciful.
Prayers and Peace be upon the Last Apostle and Messenger,
Our Prophet Mohammed, His Comrades and Relatives.

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

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

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

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

BisB achieved a strong underlying financial performance for 2009, with the balance sheet growing by 4.3 percent. Gross income was BD 41 million for 2009, while total assets increased by over 4 percent to BD 912 million. In light of the ongoing impact of the financial crisis and volatile market conditions, the Bank maintained a very prudent and conservative approach, making provisions for impairment of BD 26.4 million for 2009. This resulted in a net loss of BD 19.4 million for the year.

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

While proud of our achievements to date, we realise that we cannot afford to be complacent. Accordingly, the Board has approved a new three-year strategy for the Bank. Key elements of it include achieving and maintaining sustainable recurring income, increasing fee income to protect the balance sheet and enhancing customer service. We also plan to actively support key Government infrastructure projects. Although 2009 was the most challenging year for the Bank, we have the core fundamentals in place to return to profitability, take advantage of new business opportunities arising from improved market conditions and, importantly, continue to contribute positively to the economic and social well-being of Bahrain.

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

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

Allah the Almighty is the Purveyor of all Success.

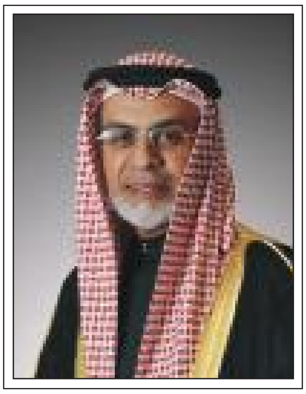
Khalid Abdulla Al Bassam
Chairman

Board of Directors

Khalid Abdulla Al Bassam
Chairman

Shaikh Hesham bin Abdulrahman Al Khalifa
Vice Chairman and Chairman of the Audit Committee

Adnan A.Qader Almusallam
Board Member and Member of the Executive Committee



Ali Mohammed Ali Al Olimi
Board Member and Member of the Audit Committee

Amr Ali Abou El Seoud
Board Member and Member of the Executive Committee

Khalid Mohammed Najeebi
Board Member
and Chairman of the
Executive Committee

Mohammed Alzarooq Rajab
Board Member
and Member of the
Audit Committee

Nabil Ahmed Mohammed Ameen
Board Member
and Member of the
Executive Committee

Rezam Mohammed Yousif Al Roomi
Board Member
and Member of the
Executive Committee

Yousif Mohammed Saleh Al Awadhi
Board Member
and Member of the
Executive Committee

Khalid Abdulla Al Bassam

Chairman

Holds Bachelors degree in Business Administration from Eastern New Mexico University, USA. Currently Chairman of Al Bassam Investment Company and Capital Management House. Also Board Member of Gulf Investment Corporation, Kuwait and the Islamic Bank of Asia, Singapore. Previously held the position of Deputy Governor, Bahrain Monetary Agency (now Central Bank of Bahrain) and Vice Chairman of Bahrain Stock Exchange.

Shaikh Hesham bin Abdulrahman Al Khalifa

Vice Chairman and Chairman of the Audit Committee

Holds an MBA in Finance from Suffolk University, Boston, USA and a Bachelors of Science in Business & Management from the University of Bahrain. Previously held prestigious positions such as Head of Central Strategy Office, Ministry of Finance & National Economy, Bahrain; Head of Commercial Enterprises at the Government Shareholdings Directorate of the Ministry of Finance & National Economy and Senior Financial Analyst - Industrial Enterprises at the Government Shareholdings Directorate, Ministry of Finance & National Economy.

Adnan A.Qader Almusallam*

Board Member and Member of the Executive Committee

Holds a Bachelors degree in Finance from Kuwait University and an MBA in Business Administration from North Texas State University in the USA. Over 25 years of experience in the industry, ranging from being founder and current Chairman and Mananging Director of The Investment Dar, Kuwait. Also Chairman of Al Sham Islamic Bank, Vice Chairman of Al Madar Finance & Investment Co., Board Member at Al Dar Asset Management Co. (Adam), and Board Member at Al Dar National Real Estate Co. Previously held leading positions in Kuwait at Kuwait Finance House, Bank of Kuwait & the Middle East, Takaful Insurance Co., and Al Shall Economic Studies Bureau.

Ali Mohammed Ali Al Olimi

Board Member and Member of the Audit Committee

Holds a B.Sc. in Accounting from Kuwait University and is currently the General Manager of Public Authority for Minors' Affairs. Apart from being Assistant Under Secretary, Board Member for Al Reem Real Estate Services and Ex-Board Member for National Real Estate Company.

Amr Ali Abou El Seoud*

Board Member and Member of the Executive Committee

A Certified Public Accountant from San Diego, California, he holds a Bachelors degree in Commerce & Accounting from Cairo University. Also a Board Member of Aston Martin, Park Lane Properties Ltd, Investment Dar UK, Dar Capital (UK) Limited, Dar Capital (Jersey) Limited, Investment Dar (Jersey) Limited and Credit Rating & Collection Company listed on Kuwait Stock Market and of Manazel Holding. Past experience includes Senior Vice President of Al Manar Financing and Leasing, Ernst & Young, Coopers & Lybrand and the Ministry of Public Works & Water Resources in Kuwait.

Khalid Mohammed Najeebi

Board Member and Chairman of the Executive Committee

Founding member and Executive Director of Najibi Investment Company W.L.L, he holds a Bachelors Degree in Financial Management from Schiller International University in London. Became a Certified Public Accountant in 1993 and a Member of Washington State Board of Accountancy in 1996. Also a founding Member, Vice Chairman & Managing Director of Capital Management House.

Mohammed Alzarooq Rajab

Board Member and Member of the Audit Committee

Holds a B.S. in Accountancy from the Libyan University and is a Fellow member of the Institute of Chartered Accountants in England and Wales since 1967. Has held prominent senior posts at various points in his career including the Auditor General of Libya, Minster of Treasury, Head of Libyan Peoples Congress, Prime Minister from 1983 to 1985, Convener of Libyan Central Bank, and has been with Libyan Foreign Investment since 2007.

Nabil Ahmed Mohammed Ameen

Board Member and Member of the Executive Committee

Holds a B.S in Business Administration from the American University in Switzerland. Currently Chairman & Managing Director of Almadar Finance and Investment Company, Kuwait. Also Vice Chairman of Al Wethaq Takaful Insurance Company, Kuwait. Has held senior positions in Kuwait Finance House and The International Investor in Kuwait.

Rezam Mohammed Yousif Al Roomi*

Board Member and Member of the Executive Committee

Holds a B.A. in Business Management from Kuwait University. He is currently Vice President & CEO of Efad Holding Company. Also a Board Member for various prominent business groups like Adeem Investment Company, Daar Investment Company, Refaad Hospitality Company, Vice President Aston Martin Laguna da, Britain. Has previously worked extensively in the real estate and investment sectors in Japan and South East Asia.

Yousif Mohammed Saleh Al Awadhi

Board Member and Member of the Executive Committee

Holds a 1969 Bachelors Degree in Management from Cairo University and was Undersecretary in the Ministry of Awqaf and Islamic Affairs of Kuwait. Has held various important positions starting from being a Finance Researcher - Finance Department to being Assistant Undersecretary for Financial, Administrative and Legal Affairs to holding the post of Director of the Department of Finance.

* Resigned 15th October 2009

Mohammed Ebrahim Mohammed

Chief Executive's Report

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

I am pleased to report that BisB posted an encouraging overall performance in 2009 especially the growth in its balance sheet and core business. This will have positive impact on the Bank's profitability and our goal of growing and maintaining sustainable recurring income going forward. In response to the subsequent effects of the global financial crisis and economic downturn on GCC regional markets, including Bahrain, we adopted a very cautious and conservative financial approach. However, we continued to invest in enhancing our organisational capability in order to reinforce the status of BisB as the leading Islamic commercial bank in the Kingdom of Bahrain.

A report of the Bank's financial performance, business achievements and organisational initiatives are fully detailed in relevant sections of this annual report, but I would like to briefly highlight some of the more notable developments of 2009.

Financial performance
Despite the net loss in 2009 of BD 19 million due to very prudent provisioning of BD 26 million, the underlying financial fundamentals of the Bank remain very strong. In terms of growth and deposit rate attraction, BisB achieved record results. Total deposits were up nearly 10 percent, Islamic finances increased by 13 percent, current accounts grew by 15 percent, and total unrestricted investment accounts rose 9 percent. The balance sheet strengthened by 4 percent during the year. The Bank's capital adequacy ratio of 14 percent remains higher than the minimum requirement of the Central Bank of Bahrain. These achievements further reinforce the image of the Bank.

Business achievements
Encouragingly, all business lines contributed to the Bank's bottom line during the year. Key achievements include the launch of new innovative retail products, and increasing the number of ATMs across the Kingdom. In addition, the Bank participated in the US$ 2.1 billion private equity placement for Al Dur Water & Power Project Company in Bahrain and provided financing for Mumtalakat, Gulf Air and the Gulf Aviation Academy.

Organisational developments
The downturn in business activities, due to adverse market conditions during 2009, enabled the Bank to devote more time and resources to its ongoing 'housekeeping' initiatives. We significantly enhanced the overall support infrastructure of BisB by further streamlining operational processes and procedures to increase efficiency and productivity, and provide a more responsive service to customers. At the same time, we strengthened the institutional capability of the Bank in the critical areas of corporate governance, risk management, internal controls, and quality assurance.

Our people constitute the most important asset of BisB and, with the full backing of the Board of Directors, we continued our substantial investment in enhancing the personal welfare and professional development of our staff. Our pioneering human resource initiatives have contributed to the Bank becoming the 'employer of choice' in Bahrain's commercial banking sector, with a leading Bahrainisation employment quota of 97 percent. Also during 2009, BisB continued to invest in the critical area of information and communications technology (ICT). We fully recognise the importance of ICT as a critical business enabler and key strategic driver of the Bank.

Reputation
BisB passed a major milestone in 2009 with the completion of 30 years' continuous operations in the Kingdom of Bahrain. Established in 1979 as the first Islamic commercial bank in the Kingdom, and one of the first in the world, the enduring loyalty of our customers has been a major factor in establishing BisB as the leading Islamic commercial bank in Bahrain. The growing reputation of the Bank was

recognised during the year by the receipt of 'The Best Islamic Bank in Bahrain Award 2009' by the reputed US financial journal Global Finance. BisB was cited for the quality of its customer service, the innovative nature of its Sharia-compliant products, and its pioneering role in the development of the Islamic banking sector in Bahrain.

The Bank has also earned a reputation for its enduring contribution to the economic and business growth of Bahrain, and its commitment to improve the quality of life for the Kingdom's citizens. During 2009, BisB increased the scope of its corporate social responsibility programme. This is aligned to Bahrain's 2030 Vision; supports the development of the Islamic banking sector; provides employment and career opportunities for Bahraini nationals; encourages entrepreneurship; and improves the well-being of the local community.

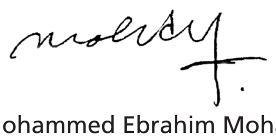
Looking ahead

At BisB, we recognise that we cannot afford to rest upon our laurels, but must prepare ourselves for the even greater uncertainties and challenges that lie ahead. We have therefore mapped out a clearly-defined and ambitious strategic plan for the next three years. Paramount is the need to ensure sustainable recurring income through diversifying our revenue streams, which entails not only continuing to focus on our core business lines of retail banking and Islamic financing, but also building our corporate and institutional business. We also need to maximise fee-based income to protect the balance sheet, while maintaining strict control of our fixed costs. Enhancing customer service and satisfaction remains a key objective to meet our long-term goal of becoming the best commercial bank in Bahrain. Additionally, we will seek opportunities to expand the Bank's presence outside Bahrain in the GCC region. Such expansion will be carefully considered in line with market conditions, and only when it makes good business sense.

Acknowledgements

The Bank's achievements during 2009 would not have been possible without the concerted efforts of all our stakeholders. In particular, I would like to thank our Board of Directors for their financial support and unwavering encouragement; our Sharia'a Supervisory Board for their guidance and supervision; our customers for their trust and loyalty; our business partners for their positive and constructive cooperation. I would also like to commend BisB's management and staff for their dedication, professionalism and innovative spirit. Together, they have ensured that BisB is well placed to enter 2010 and the new decade with renewed strength and confidence.

Allah the Almighty is the Purveyor of all Success.



Mohammed Ebrahim Mohammed
Chief Executive

Celebrating

30

Years of Heritage

Executive Management

(Left to right)

Ali A. Kareem
Head of Treasury & Investment

Abdulrahman Mohammed Turki
General Manager Retail Banking

Dr. Salahudin A. Qader
General Manager Credit & Risk Management

Khalid Mahmoud Abdulla
Head of Internal Audit

(Left to right)

Mohammed Ahmed Hassan
General Manager Support Services

Khalid Mohammed Al Dossari
Chief Financial Officer

Nader Mohammed Ebrahim
General Manager Corporate & Institutional Banking

وقل اعملوا فسيرى اللّه عملكم ورسوله والمؤمنون

(سورة التوبة، آية ١٠٥)

And say: "Work, Soon will Allah observe your work,
and His Messenger, and the Believers

(Attawba, verse 105)

Review of Operations

Retail Banking

Despite challenging market conditions and an increasingly competitive commercial banking sector in Bahrain, the retail banking business of BisB enjoyed a busy and successful year in 2009. The Bank focused on retaining the loyalty of existing customers; attracting new clients; enhancing service levels; providing faster transaction times; launching new products; and expanding delivery channels. These initiatives and developments were designed to reinforce the status of BisB as the leading Islamic bank in the Kingdom, and to position BisB as a progressive, friendly and responsive 'family' bank.

The Bank launched two new innovative products in 2009 – the vevo account, targetted at the important youth segment, and the EzyBuy consumer financing programme for the purchase of household goods and kitchens from approved suppliers. BisB also expanded its delivery network – opening its 12th branch at the Bahrain Financial Harbour mall – and increasing the number of ATMs to 46, comprising branch-sited ATMs as well as off-site, off-site 24 hours, off-site drive-through, and off-site ATMs at shopping malls, conveniently located in major areas around Bahrain. In addition, all existing branches were fully renovated and re-branded.

Also during the year, BisB conducted several marketing and promotional campaigns designed to increase awareness of the Bank and to reinforce the take-up of new products launched in 2008. These include chip-embedded credit cards, the Tejoori Savings Account, the Iqra Education Investment Scheme, auto finance, and Internet and telephone banking. The user-friendliness of the Internet was also improved.

Future plans for retail banking include the launch of a new Priority Banking service and the introduction of a new customer-oriented Financial Mall concept.

Corporate & Institutional Banking

The effects of the global financial crisis, economic downturn and credit squeeze adversely impacted corporate sentiment in Bahrain during 2009. This presented BisB with the dual challenges of fewer corporate banking business opportunities and an increasingly competitive corporate banking environment.

Despite this, the Bank's corporate and institutional banking business performed strongly in 2009. The main focus was to secure additional business with elite and trustworthy corporate clients and major sovereign and quasi-sovereign clients. These segments offer a lower risk exposure while avoiding any financing transactions in the real estate sector.

As a result, BisB increased its financing portfolio, grew assets, and finalised a number of key transactions. These included a US$ 70 million financing facility for Gulf Air (the Kingdom's national carrier) and a US$ 20 million financing facility for Mumtalakat (Bahrain's sovereign wealth fund).

In line with expectations of economic recovery and growth in financing opportunities in the GCC and MENA regions, the Bank has developed an ambitious business plan for corporate and institutional banking in 2010. The plan includes increasing income without compromising asset quality; diversifying its client, sectoral and geographic base; and enhancing its MLA and underwriting role through syndications, sukuk issues and commercial financing deals.

In addition, BisB plans to increase fee-based income from trade finance and structured finance activities to support balance sheet growth; and to grow its reciprocal business and take greater advantage of cross-selling products and services through its growing network of relationships. A new corporate Internet banking service is also planned to be launched in 2010.

Treasury & Investment

Treasury

During 2009, Treasury continued to successfully manage the Bank's liquidity and grow and protect its balance sheet. The key priority remained the need to preserve capital and to ensure recurring sustainable income. BisB also continued to adopt a cautious approach to proprietary trading, with a balanced portfolio primarily focused on public and very selective private equities, and capital market sukuks issues.

Also during the year, BisB implemented phase 1 of its new state-of-the-art treasury system. Future plans include broadening the Bank's range of treasury products and services, and establishing a new Asset Management unit to cater to high net-worth individuals and retail clients.

Treasury aims to enhance the Bank's funding profile in 2010 by negotiating bilateral medium term Murabaha facilities to better match maturities. In the medium term, the Bank plans to seek longer term funding from the syndicated finance market or the capital markets once the market conditions return to normalcy.

Investment

In line with its conservative approach, BisB maintained the primary exposure of its investment portfolio to GCC-focused, blue chip entities. Due to the challenging and volatile market conditions that prevailed at the beginning of 2009, total investment income was lower than 2008 levels, but still continued to make a contribution to the Bank's bottom line. Successfully anticipating the moderate recovery of global and regional markets, which took place during the second quarter of 2009, the Bank adopted a proactive investment approach in advance of the expected recovery. This proactive approach resulted in higher yields and superior returns.
The Bank's major investment transactions in 2009 were:

- Participation with leading local, regional and international financial institutions in a US$ 2.1 billion private equity placement for Al Dur Water & Power Project Company. The special purpose vehicle will be responsible for establishing a major power and water desalination complex on the south-east coast of Bahrain. It is estimated to have an annual capacity of 1,243 megawatts of electricity and 62 million gallons of water.
- Participation as Co-Manager in the USD1.25 billion Dubai DOF (Department of Finance) Sukuk, which was Dubai's major issuance during the year.
- Participation in the USD1 billion TDIC (Tourism Development and Investment Company of Abu Dhabi) Sukuk.

Future plans include taking a more active and leading role in sukuk issuance in the GCC and other capital markets activities. Focus will be placed on infrastructure and industrial projects that can produce good sustainable recurring income for BisB and which will also support Bahrain's economic development and industrial diversification. In addition, the Bank will explore investing in Islamic Structure Products to gain exposure to various asset classes available to investors around the world.

Support Services

Human Capital

Our people are the most important asset of BisB. The employees not only represent 'the human face' of the Bank, but also act as a key driver of strategic and business growth. This underlines the Bank's commitment to attract, develop and retain the best professionals in the industry and provide rewarding career opportunities for Bahraini nationals.

During 2009, BisB conducted its annual review of employee compensation packages against market norms to ensure that the Bank remains the leader in staff salaries, as well as related benefits for our people and their families. This approach has led to BisB becoming the 'employer of choice' in Bahrain's commercial banking sector. At 97 percent, the Bank has the highest Bahrainisation employment quota of any bank in the Kingdom.

Succession planning is a key element in the Bank's continued growth and development. BisB has put in place a comprehensive succession planning system that covers not just the top level of management, but applies to the entire organisation. This is designed to identify and develop staff at junior levels for future management positions. Another critical element of the Bank's strategy is to instill a culture of performance and accountability throughout the organisation. A new performance management process was developed during the year for gradual implementation during 2010.

Training & Development

BisB sponsors staff to obtain professional qualifications and pursue post-graduate studies. During 2009 the Bank maintained its considerable investment in staff training and development. Training courses were conducted for enhancing basic knowledge and skills, meeting regulatory requirements for anti-money laundering and addressing critical areas such as risk management and credit control.

General Services

A number of internal administrative and support services help to ensure the smooth day-to-day functioning of the Bank. These include procurement, security, utilities, transport, property management, branch renovations and maintenance. In 2009, BisB implemented a new data system to improve work flows and the quality of internal services throughout the organisation.

Information Technology

Information and communications technology (ICT) is a critical business enabler and strategic driver for the Bank. In an extremely active and productive year, BisB continued to enhance its ICT capabilities to support all existing areas of operations as well as the Bank's future strategic plans.

Key developments in 2009 include building a new data centre; finalising plans for a new disaster recovery centre as part of the Bank's business continuity plan; and tightening information security measures in line with BisB's prestigious ISO 27001 certification.

In addition, new ICT tools and systems were identified and developed for the ongoing automation of the following areas and activities of the Bank:

- Risk Management
- Treasury
- Anti-Money Laundering
- Human Resources
- Customer Relationship Management (CRM)
- Contact Centre
- Internet banking
- SMS Banking
- Business Intelligence / Management Information System
- Change Management processes

Central Operations
The downturn in business activity in Bahrain in 2009 provided BisB with the opportunity to devote more time and resources to enhancing its overall support infrastructure. During the year, the Bank significantly enhanced its institutional capability, operational efficiency, and the scope and quality of support services, through identifying and implementing new ways of better utilising its resources.

BisB continued to streamline 'back office' operational procedures to enable front line staff to deliver greater customer convenience and satisfaction, while maintaining necessary due diligence to mitigate operational risk. An ongoing review of business applications was conducted to identify and close any gaps, and improve workflow efficiency through a process-driven methodology.

In addition, several new specialist software applications for critical areas such as treasury, risk management and human resources were implemented to enhance automation, minimise human error and reduce overall cycle times and costs. The Bank also enhanced the quality, flow and availability of MIS statistics and data to aid decision making by the management.

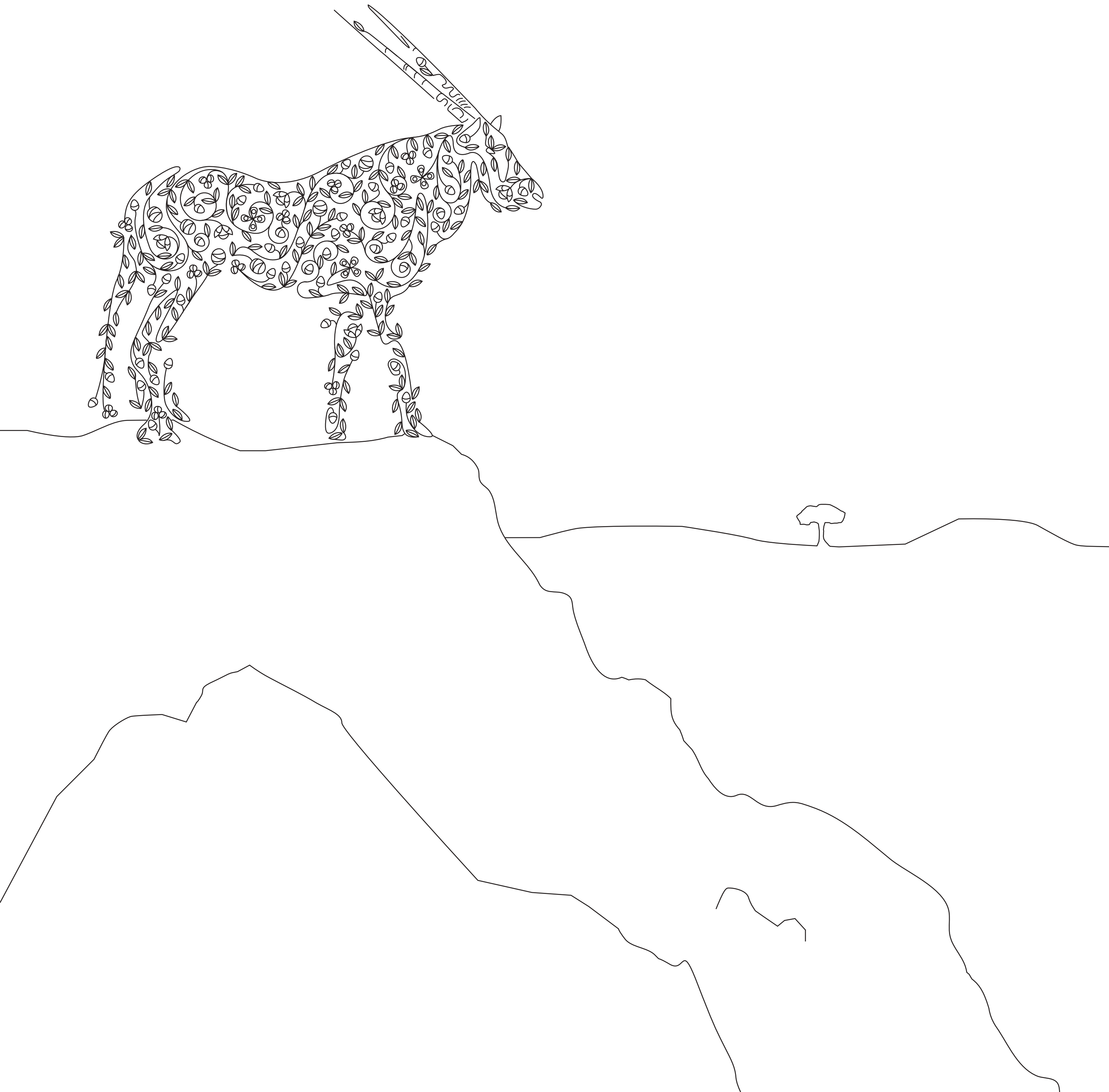
These developments and achievements were underpinned by an exhaustive review and revision of all operating policies, processes and procedures of the Bank in 2009.

ولا تُلقُوا بِأَيديكُم إلى التَّهلُكَةِ

(سورة البقرة, آية ١٩٥)

Make not your own hands contribute to (your) destruction

(Al Baqara, verse 195)



Risk Management

As an inherent part of the Bank's activities, risk is managed through a process of ongoing identification, measurement, monitoring and reporting subject to risk limits and other controls. This process of risk management is critical to the continued profitability of BisB. All individuals within the Bank are personally accountable for the risk exposures relating to their responsibilities.

The Bank is exposed primarily to credit risk, liquidity risk, market risk (including profit rate, equity price and currency risks), operational risk, reputational risk and Sharia-compliant risk.

Risk management philosophy

The risk management philosophy of BisB is to identify, capture, monitor and manage the various dimensions of risk. The objective is to protect asset values and income streams so that the interests of the Bank's stakeholders are safeguarded while optimising shareholders' returns and maintaining risk exposure within parameters set by the Board.

The Bank has defined its risk appetite within the parameters of its Risk Strategy. BisB reviews and aligns its risk appetite in line with its evolving business plan and changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Capital Management policies and a Risk Charter define the Bank's risk strategy. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework across all areas of the Bank.

Risk management framework

BisB has in place a comprehensive and robust risk management structure. This embraces all levels of authorities, organisational structure, people and systems required for the smooth functioning of risk management policies within the Bank.

The Board of Directors retains ultimate responsibility and authority for all risk matters including establishing overall policies and procedures. The Board is assisted in fulfilling its responsibilities by the Chief Executive and various committees (see Corporate Governance for details).

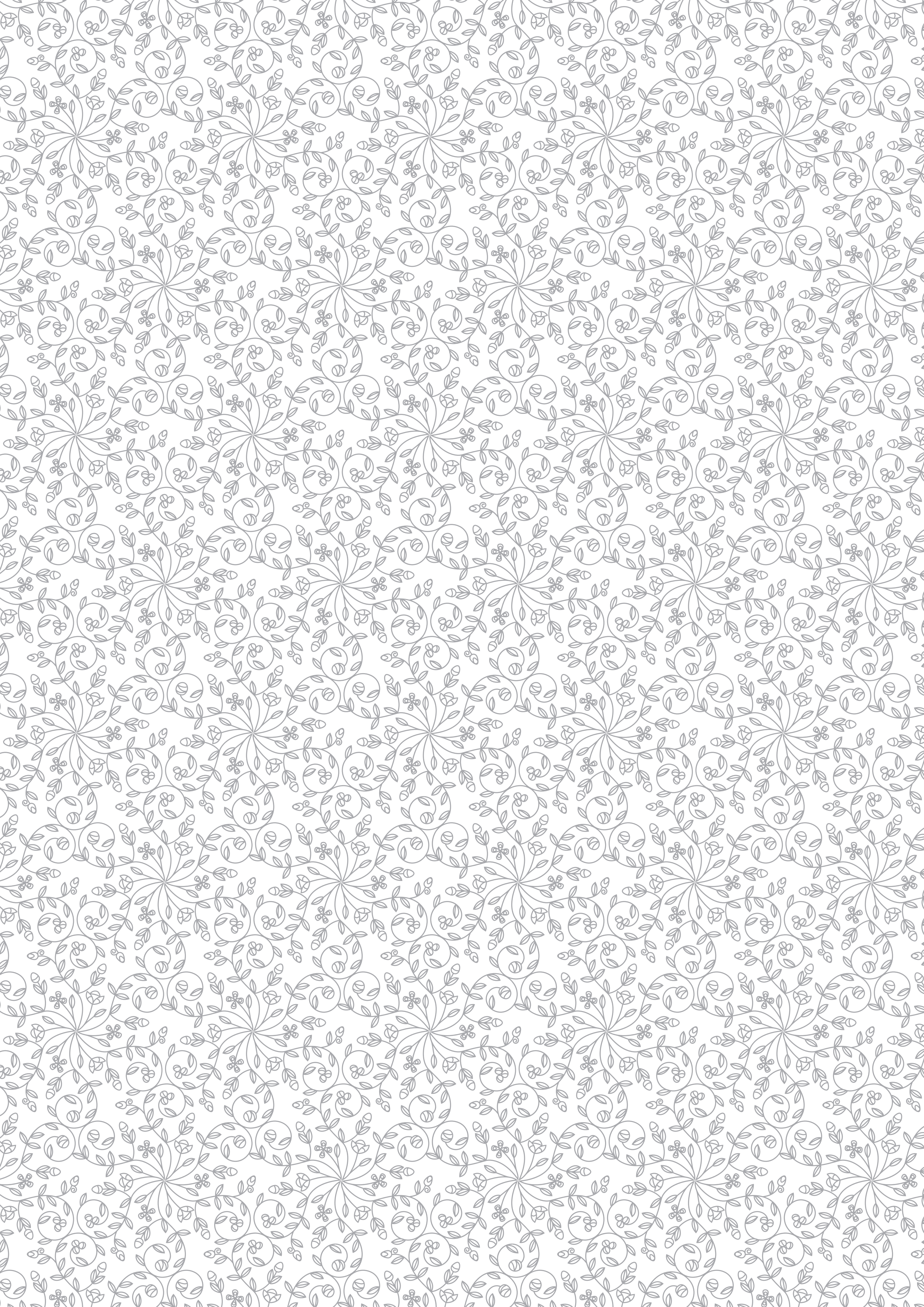
The Credit & Risk Management (CR&M) division, headed by a General Manager reporting directly to the Chief Executive, has the day-to-day responsibility for managing the risks involved across all areas of the Bank. CR&M provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. CR&M comprises a number of specialist units, including Risk Management & Compliance, Credit Review & Analysis, Credit Administration and Legal Affairs.

Key developments in 2009

In light of the prevailing global and regional challenging conditions, the Bank placed the highest priority on further strengthening its risk management infrastructure during 2009. Key developments and initiatives included:

- Strengthening the Risk Management team with the appointment of qualified and experienced bankers
- Creating and augmenting new policies required in compliance with Basel II
- Introducing new rigorous approval system procedures and risk management systems and tools
- Ensuring ongoing compliance with the rules and regulations of the Central Bank of Bahrain and Basel II requirements
- Monitoring Sharia-compliant risk as well as the other risks to which BisB is exposed
- Instilling a credit culture throughout the Bank
- Ensuring controlled growth through a balance of ‘minimising risk and maximising yield

Additional information on the Bank’s risk management framework, policies, processes and procedures is included in the Notes to the Consolidated Financial Statements and the Basel II Pillar 3 Public Disclosure sections of this annual report.

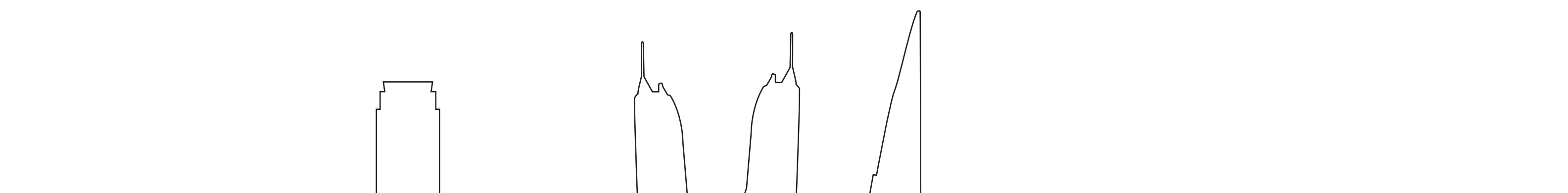


اللّهُ الَّذِي رَفَعَ السَّمَاوَاتِ بِغَيْرِ عَمَدٍ تَرَوْنَهَا

(سورة الرعد, آية ٢)

Allah is He Who raised the heavens without any pillars that ye can see

(Ar-Ra'd, verse 2)



Corporate Governance

As a responsible financial institution and a leading Islamic bank, BisB is committed to upholding the highest standards of corporate governance. This comprises complying with regulatory requirements, protecting the rights and interests of all stakeholders, enhancing shareholder value and achieving organisational efficiency.

The Bank has developed policies, approved by its Board, for corporate governance, compliance, disclosure and transparency in accordance with the latest rules and guidelines of the Central Bank of Bahrain (CBB). As well as complying with regulatory requirements, BisB adopts a 'self-governance' approach to business.

Responsibilities

Board of Directors

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the executive management and maintaining a dialogue with the Bank's shareholders.

The Board is assisted in carrying out its responsibilities by the following:

- Executive Committee
- Audit Committee
- Nomination & Remuneration Committee
- Sharia Supervisory Board

The Bank's independent Internal Audit function reports directly to the Board through the Audit Committee and also has an indirect line to the Sharia Supervisory Board.

Management

The Board delegates the authority for the day-to-day management of the business to the Chief Executive, who is supported by a qualified senior management team and several management committees for credit and investment decisions, management of assets and liabilities and to deal with the Bank's infrastructure and human capital needs.

- Credit & Investment Committee
- Assets & Liabilities Committee (ALCO)
- Provisions Committee
- Projects Committee
- HR Committee
- IT Steering Committee
- Zakat Donations & Qardh Al Hasan Committee

Governance Framework

The Bank's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls; compliance procedures; internal and external audit; and effective communications.

Code of Business Conduct

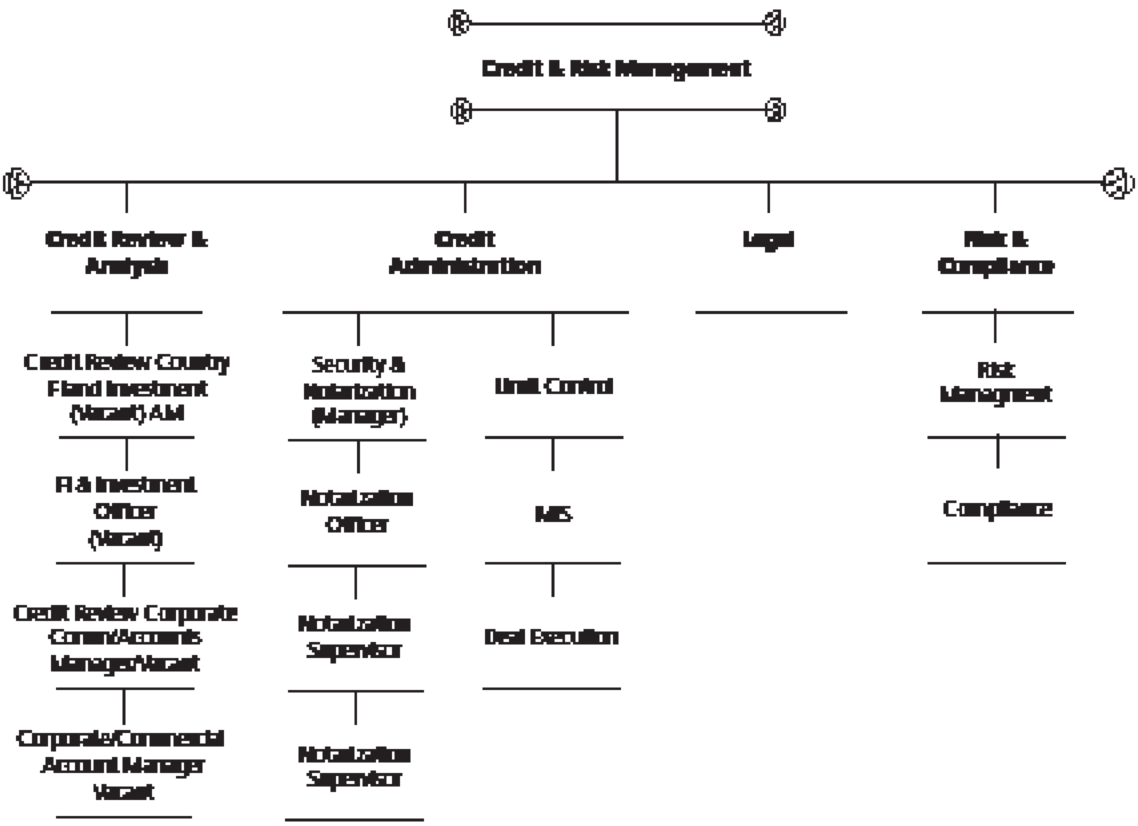
BisB conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

BisB has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the CBB, the Bahrain Stock Exchange and other regulatory agencies, including appropriate anti-money laundering procedures.

Communications

The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate website and regular timely announcements in the appropriate local media.


Credit & Risk Management
Credit Review & Analysis
Credit Administration
Legal
Risk & Compliance
Credit Review Country FI and Investment (Vacant) AM
FI & Investment Officer (Vacant)
Credit Review Corporate Comm/Accounts Manager/Vacant
Corporate/Commercial Account Manager Vacant
Security & Notarization (Manager)
Notarization Officer
Notarization Supervisor
Notarization Supervisor
Limit Control
MIS
Deal Execution
Risk Managment
Compliance

وَمَا أَنفَقْتُم مِّن نَّفَقَةٍ أَوْ نَذَرْتُم مِّن نَّذْرٍ فَإِنَّ اللّٰهَ يَعْلَمُهُ

(سورة البقرة, آية ٢٧٠)

And whatever ye spend in charity or devotion,
be sure Allah knows it all

(Al Baqara, verse 270)

Corporate Social Responsibility

Since inception, BisB has been committed to contributing to the economic and social well-being of the Kingdom of Bahrain. Our comprehensive corporate social responsibility (CSR) programme underlines the importance the Bank places on its role as a responsible and caring corporate citizen. Some of the key pillars of the Bank's CSR programme are listed below.

Industry Sponsorships

By sponsoring and participating in major financial industry conferences and events, BisB actively contributes to the development of the Islamic banking sector:

- 2009 AAOIFI-World Bank Annual Conference on Islamic Banking & Finance
- 9th annual GCC Banking Conference
- 2009 Annual International Conference of Islamic Banks
- 2009 Global Islamic Finance Directory
- Bahrain Stock Exchange Electronic Monitor

Developing Bahraini nationals

BisB not only provides employment and career opportunities for Bahraini nationals, who comprise 97% of the Bank's total staff, but also encourages entrepreneurship and nurtures tomorrow's business leaders, by supporting the following initiatives:

- Injaz Bahrain
- The Crown Prince's International Scholarship Programme
- Waqf Fund for Islamic Banking Training and Development (BIBF)
- Summer Internship programme for Bahraini university students

Increasing the awareness of Islam

As a leading Sharia-compliant financial institution, BisB is also committed to raising awareness of Islam through support for national institutions such as the following:

- Muslim Education Society
- Discover Islam

Improving the well-being of the local community

BisB contributes to improving the well-being and quality of life of the local community through:

- Support for a wide range of charitable, medical, educational, cultural, sporting and community organisations and events, including the Royal Charity Organisation
- Financial assistance to needy families, individuals and deserving causes

Sharia Supervisory Board

Dr. Shaikh A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

Sharia Supervisory Board's Report

To the shareholders of Bahrain Islamic Bank B.S.C.

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

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh

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

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

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

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

The Sharia'a Supervisory Board believes that:

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

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

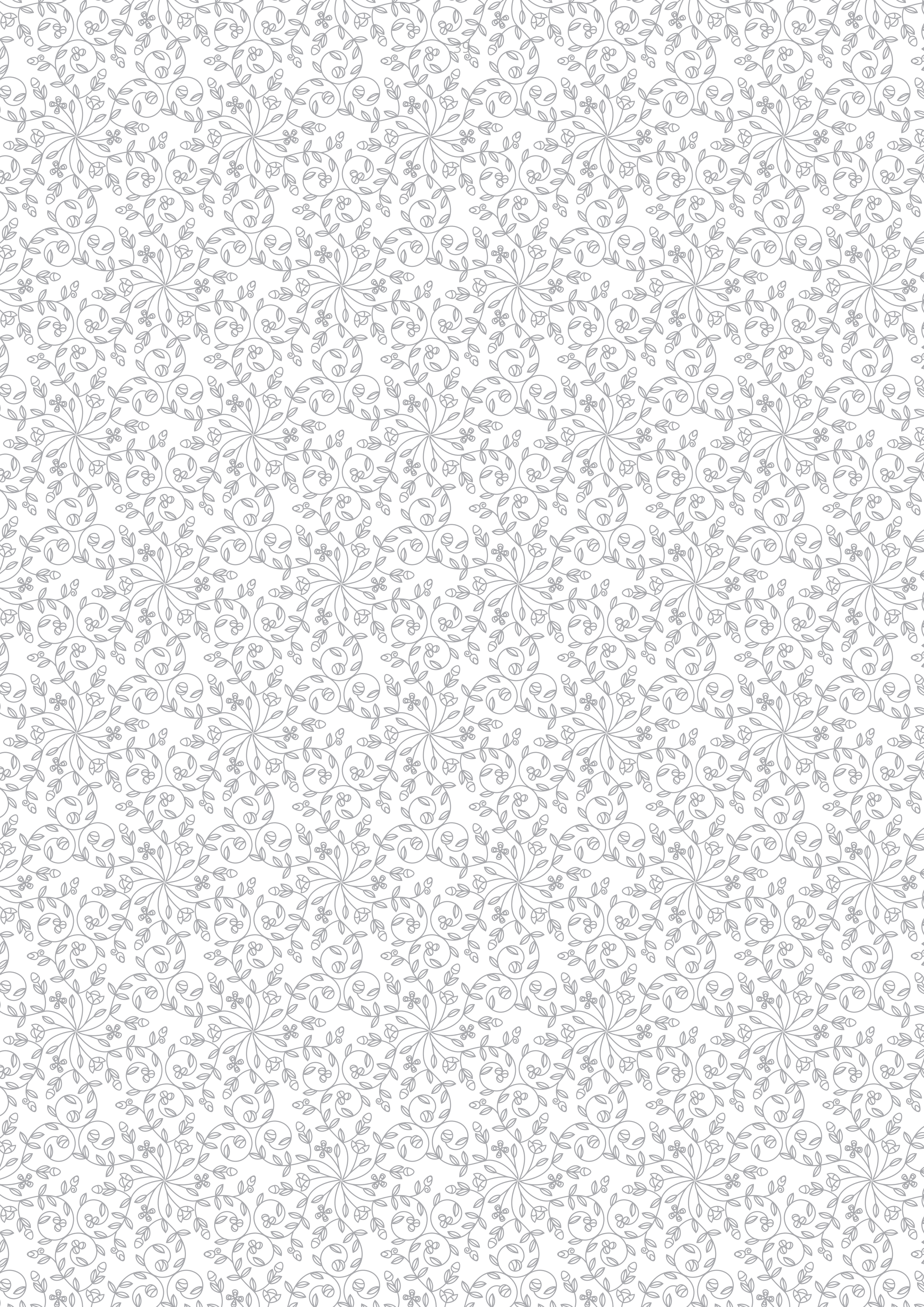
Dr. Shaikh A. Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member



Financial Statements Contents

Auditors' Report

Independent auditors' report to the shareholders of Bahrain Islamic Bank B.S.C.

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

Opinion

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

Other Regulatory Matters

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

Ernst & Young

8th February 2010
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

31 December 2009

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

Khalid Abdulla Al Bassam	Nabil Ahmed Amin	Mohammed Ebrahim Mohammed
Chairman	Board Member	Chief Executive

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

Consolidated Statement of Income

For the year ended 31 December 2009

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

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

Consolidated Statement of Cash Flow

For the year ended 31 December 2009

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

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital BD'000	Treasury share BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Investments in properties fair value reserve BD'000	Cumulative changes in fair value of investments BD'000	Accumulated loss/ retained earnings BD'000	Proposed appropriations BD'000	Total equity BD'000
1 January 2009	66,235	-	43,936	10,268	1,000	18,093	(4,688)	17,714	13,889	166,447
Bonus shares issued (note 15)	6,624	-	-	-	-	-	-	-	(6,624)	-
Purchase of treasury shares (note 15)	-	(173)	-	-	-	-	-	-	-	(173)
Dividends paid	-	-	-	-	-	-	-	-	(6,624)	(6,624)
Zakah paid	-	-	-	-	-	-	-	-	(641)	(641)
Net loss for the year	-	-	-	-	-	-	-	(19,397)	-	(19,397
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	889	-	-	889
Transfer of changes in fair value reserve	-	-	-	-	-		2,368	(2,368)	-	-
Appropriations (note 15)	-	-	-	-	-	-	-	(747)	747	-
31 December 2009	72,859	(173)	43,936	10,268	1,000	18,093	(1,431)	(4,798)	747	140,501
1 January 2008	60,214	-	50,869	8,037	1,000	7,133	30,217	16,073	13,633	187,176
Bonus shares issued (note 15)	6,021	-	(309)	-	-	-	-	-	(5,712)	-
Dividends paid	-	-	-	-	-	-	-	(216)	(7,615)	(7,831)
Zakah paid	-	-	-	-	-	-	-	-	(306)	(306)
Net income for the year	-	-	-	-	-	-	-	22,313	-	22,313
Transfer to statutory reserve	-	-	-	2,231	-	-	-	(2,231)	-	-
Unrealized gain on investments in properties	-	-	-	-	-	11,436	-	(11,436)	-	-
Realized gain on investments in properties	-	-	-	-	-	(476)	-	476	-	-
Changes in fair value of investments	-	-	-	-	-	-	(34,905)	-	-	(34,905)
Appropriations (note 15)	-	-	(6,624)	-	-	-	-	(7,265)	13,889	-
31 December 2008	66,235	-	43,936	10,268	1,000	18,093	(4,688)	17,714	13,889	166,447

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

Consolidated Statement of Sources and Used of Good Faith Qard Fund

For the year ended 31 December 2009

	Qard hasan receivables BD'000	Funds available for qard hasan BD'000	Total BD'000
1 January 2009	10	118	128
Uses of qard fund			
Marriage	18	(18)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the year	59	(59)	-
Repayments	(67)	67	-
31 December 2009	2	126	128
1 January 2008	27	101	128
Uses of Qard Fund:			
Marriage	17	(17)	-
Refurbishment	16	(16)	-
Medical treatment	14	(14)	-
Others	11	(11)	-
Total uses during the year	58	(58)	-
Repayments	(75)	75	-
31 December 2008	10	118	128

	2009 BD'000	2008 BD'000
Sources of qard fund		
Contribution by the Bank	125	125
Donation	3	3
Total of sources during the year	128	128

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

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

For the year ended 31 December 2009

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

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

Notes to the Consolidated Financial Statements

31 December 2009

1. Incorporation and activities

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

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

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

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

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

2. Significant accounting policies

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

a. Basis of preparation

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

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

b. Statement of compliance

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

C. Basis of consolidation

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

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

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

2. Significant accounting policies (continued)

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

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

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

f. Mudaraba and Musharaka investments
These are stated at the fair value of consideration given less provision for impairment.

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

i. Investments in associates

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

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

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

j. Ijarah assets, Ijarah Muntahia Bittamleek

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

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

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

k. Investments in properties

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

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

l. Unrestricted investment account holders

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

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

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

2. Significant accounting policies (continued)

m. Investment risk reserve

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

n. Profit equalisation reserve

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

o. Zakah

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

p. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

q. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

r. Treasury shares

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

2. Significant accounting policies (continued)

s. Earnings prohibited by Shari'a

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

t. Joint and self financed

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

u. Offsetting

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

v. Revenue recognition

Murabaha receivables

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

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

Musharaka investments

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

Mudaraba investments

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

Ijarah and Ijarah Muntahia Bittamleek

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

Dividends income

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

Income from Ijarah assets

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

Fee and commission income

Fee and commission income is recognised when earned.

Group's share of unrestricted investment income as a Mudarib

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

2. Significant accounting policies (continued)

Income allocation

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

w. Foreign currencies

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

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

x. Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:
(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

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

y. Judgments and estimates

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

Impairment

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

Collective impairment provision

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

2. Significant accounting policies (continued)

y. Judgments and estimates (continued)

Fair valuation of investments

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

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

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

Classification of investments

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

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

aa.Trade date accounting

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

bb. Employees' end of service benefits

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

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

cc. Shari'a supervisory board

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

3. Cash and balances with Central Bank of Bahrain and other banks

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

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

4. Murabaha receivables

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

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

4. Murabaha receivables (continued)

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

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

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

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

5. Mudaraba investments

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

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

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

6. Musharaka investments

	Jointly financed 2009 BD'000	Jointly financed 2008 BD'000
Real estate	80,927	80,576
Provision for impairment (note 21)	(8)	(50)
	80,919	80,526

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

7. Investments

	2009			2008		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
i) Held to maturity						
Unquoted investments						
Sukuk	-	93,075	93,075	-	66,065	66,065
		93,075	93,075		66,065	66,065
ii) Available for sale						
Quoted investments						
Equity shares	37,307	-	37,307	22,182	-	22,182
Unquoted investments						
Equity shares	14,030	-	14,030	16,299	-	16,299
Sukuk		-	-	-	9,427	9,427
	51,337	-	51,337	38,481	9,427	47,908
iii) Trading securities						
Quoted investments						
Equity shares	297	-	297	-	-	-
	51,634	93,075	144,709	38,481	75,492	113,973
Provision for impaiment on						
Held to maturity (note 21)	-	(2,099)	(2,099)	-	(1,043)	(1,043
Available for sail (note 21)	(8,415)		(8,415)	(4,781)		(4,781)
	(8,415)	(2,099)	(10,514)	(4,781)	(1,043)	(5,824)
	43,219	90,976	134,195	33,700	74,449	108,149

8. Investments in associates

The Group has the following investments in associates:

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

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

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

8. Investments in associates (continued)

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

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

9. Investments in ijarah assets

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

10. Ijarah Muntahia Bittamleek

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

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

11. Investments in properties

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

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

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

12. Other assets

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

13. Other liabilities

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

14. Unrestricted investment accounts

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

14.1 Movement in profit equalisation reserve

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

14.2 Movement in investment risk reserve

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

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

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

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

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

	2009		2008	
	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution
Defined deposits	87	2.90	85	3.37
Specific investment deposits	100	4.40	100	35 - 45
Investment certificates	90	4.00	90	4.00
Savings accounts	44	0.70	43	0.70
Education and shifa	-	-	83	4.00
Iqra	84	3.00	83	2.67
Tejoori	44	0.70	43	0.67
Vevo	45	0.70	-	-

15. Equity

(i) Share capital

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

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

15. Equity (continued)

(ii)Treasury shares

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

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

(iii) Share premium

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

(iv) Reserves

Statutory reserve

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

General reserve

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

Investments in properties fair value reserve

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

Cumulative changes in fair value of investments

This represents the net unrealised gains / (loss) on available-for-sale investments relating to self financed investments.

15. Equity (continued)

(v) Appropriations

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

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

16. Capital adequacy

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

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

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

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

16. Capital adequacy (continued)

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

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

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

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

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

17. Commitments and contingent liabilities

Credit related commitments

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

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

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

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

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

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

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

Credit lines commitment

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

18. Income from jointly financed sales and investments

	2009 BD'000	2008 BD'000
Income from Islamic finances:		
Income from Murabaha receivables	16,645	16,397
Income from Mudaraba investments	872	2,250
Income from Musharaka investments	5,315	6,678
Income from Ijarah Muntahia Bittamleek - net *	7,468	3,539
	30,300	28,864

Income from sukuk and commodities:		
Income from Murabaha Commodities	1,422	4,058
Income from investments in Sukuk	3,972	4,012
	5,394	8,070

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

Income from Ijarah Muntahia Bittamleek – gross	9,793	4,821
Depreciation during the year (note 10)	(2,325)	(1,282)
	7,468	3,539

19. Net income from investments

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

20. Other expenses

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

21. Provisions

2009	Other assets BD'000	Murabaha receivables BD'000	Mudaraba investments BD'000	Musharaka investments BD'000	Investments BD'000	Total BD'000
Provisions at 1 January	8,867	3,421	50	5,824	-	18,162
Write off during the year	(111)	(305)	(42)	(850)	-	(1,308)
	8,756	3,116	8	4,974	-	16,854
Provided (written back) during the year	19,792	(478)	-	5,540	1,553	26,407
Provisions at 31 December	28,548	2,638	8	10,514	1,553	43,261
Notes	4	5	6	7	12	

2008	Murabaha receivables BD'000	Mudaraba investments BD'000	Musharaka investments BD'000	Investments BD'000	Other assets BD'000	Total BD'000
Provisions at 1 January	1,915	-	50	315	-	2,280
Written off during the year	(15)	-	-	-	-	(15)
	1,900	-	50	315	-	2,265
Provided during the year	6,967	3,421	-	5,509	-	15,897
Provisions at 31 December	8,867	3,421	50	5,824	-	18,162
Notes	4	5	6	7	12	

22. Zakah

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

23. Earnings per share

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

	2009	2008
Net (loss) income for the year in BD'000	(19,397)	22,313
Weighted average number of shares	728,043	728,043
Basic and diluted earnings per share (fils)	(26.64)	33.65

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

24. Related party transactions

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

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

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

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

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

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

24. Related party transactions (continued)

Compensation of the key management personnel is as follows:

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

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

25. Risk management

Introduction

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

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

Risk management objectives

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

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

Risk appetite of the Group is articulated in terms of the following dimensions:
1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and organization of risk management function

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:
The Board retains ultimate responsibility and authority for all risk matters, including:
a. Establishing overall policies and procedures; and
b. Delegating authority to Executive Committee, Credit Committee, Managing Director, Chief Executive Officer and further delegation to the management to approve and review.

25. Risk management (continued)

Structure and organization of risk management function (continued)

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

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

Risk measurement & reporting systems

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

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

Type of credit risk

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

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

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

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

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

25. Risk management (continued)

a) Credit risk (continued)

Credit risk mitigation

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

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

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.
Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

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

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

(i) Gross maximum exposure to credit risk

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

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

25. Risk management (continued)

a) Credit risk (continued)

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

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

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

(ii) Risk concentrations of the maximum exposure to credit risk

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

25. Risk management (continued)

a) Credit risk (continued)

(ii) Risk concentrations of the maximum exposure to credit risk (continued)

The distribution of the Group's assets, liabilities, unrestricted investment accounts, commitments and contingent liabilities by geographic region and industry sector at 31 December is as follows:

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

25. Risk management (continued)

a) Credit risk (continued)

(iii) Credit quality per class of financial assets

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

	31 December 2009					
	Neither past due nor imported					
	High grade BD'000	Standard grade BD'000	Restructured BD'000	Past due but not impaired BD'000	Individually impaired BD'000	Total BD'000
Murabaha receivables	8,167	248,336	58,201	2,770	43,593	361,067
Musharaka investments	-	46,099	30,541	130	4,157	80,927
Ijarah muntahia bittamleek	-	111,342	-	6,469	1,433	119,244
Ijarah rental receivables	-	3,603	-	-	-	3,603
	8,167	409,380	88,742	9,369	49,183	564,841

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

(iv)Aging analysis of past due but not impaired Islamic financing facilities per class of financial assets

2009	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Murabaha receivable	462	2,264	44	2,770
Musharaka investments	108	22	-	130
Ijarah muntahia bittamleek	4,777	1,486	206	6,469
	5,347	3,772	250	9,369

2008	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Murabaha receivable	4,668	13,197	766	18,631
Musharaka investments	2,507	157	33	2,697
Ijarah muntahia bittamlee	987	3	-	990
	8,162	13,357	799	22,318

25. Risk management (continued)

b) Liquidity risk

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

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its unrestricted investment accounts.

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

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

25. Risk management (continued)

b) Liquidity risk (continued)

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

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

25. Risk management (continued)

c) Market risk

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

(i) Profit rate risk

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

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

(ii) Equity price risk

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

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

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

2009	(decrease) in equity price depreciation %	Sensitivity of profit or loss BD'000	Sensitivity od equity BD'000
Bahrain Stock Exchange	+10	16	2,269
Saudi Stock Exchange (TADAWUL)	+10	-	957
Dubai International Financial Exchange	+10	-	136
Qatar Stock Exchange	+10	-	368
Abu Dhabi Stock Exchange	+10	9	-
Kuwait Stock Exchange	+10	5	-

2008	Outstanding balance %	Variance after 10% appreciation BD'000	Variance after10% depreciation BD'000
Bahrain Stock Exchange	+10	-	1,861
Kuwait Stock Exchange	+10	-	211
Dubai International Financial Exchange	+10	-	136
Istanbul Stock Exchange	+10	-	11

25. Risk management (continued)

c) Market risk (continued)

(ii) Equity price risk (continued)

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

iii) Currency risk

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

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

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

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

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

d) Operational risk

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

26. Segmental information

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

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

27. Fair value of financial instruments

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

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

28. Earnings and expenses prohibited by shari'a

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

29. Shari'a supervisory board

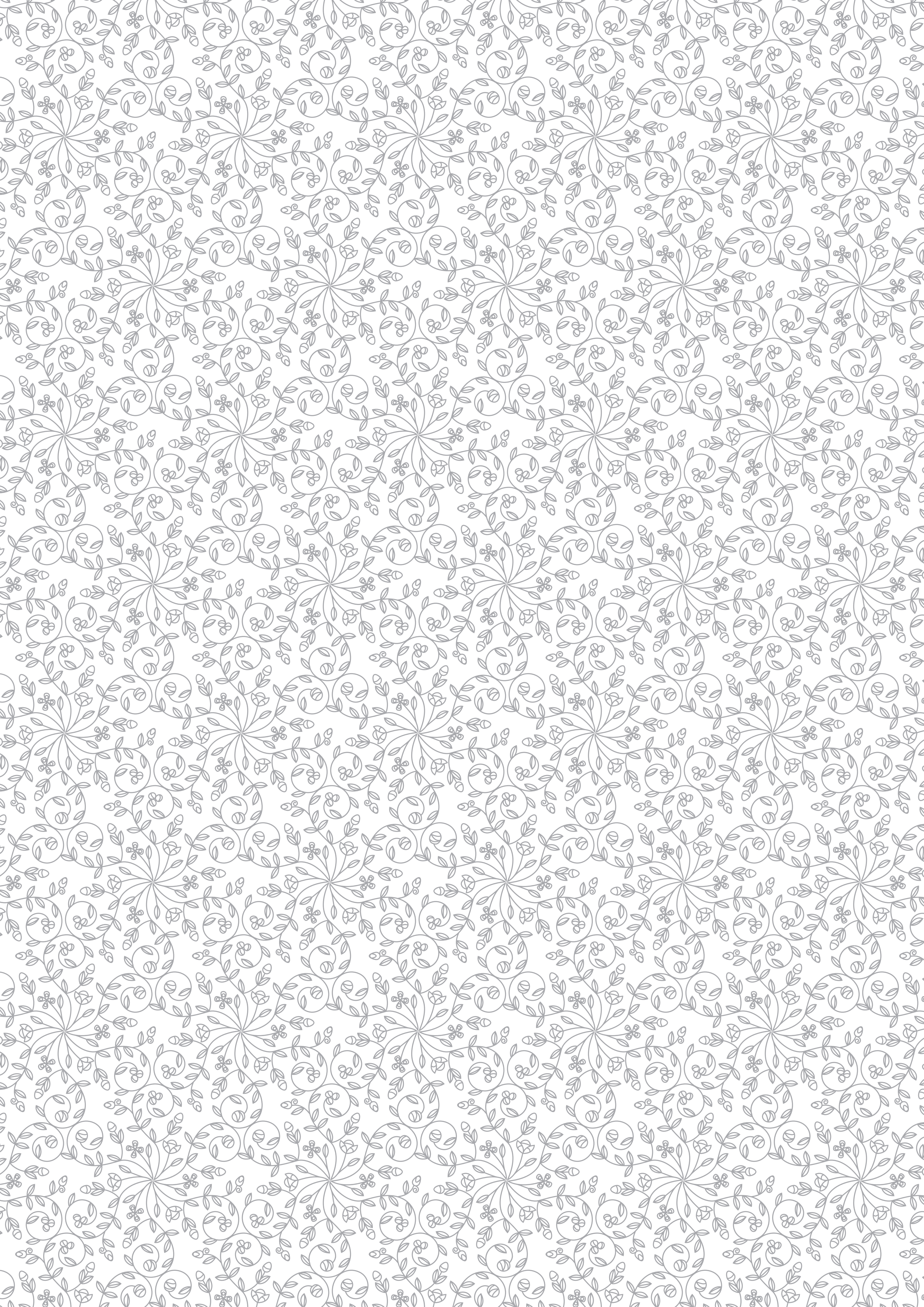
The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group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

30. Social responsibility

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

31. Comparative figures

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



Basel II, Pillar III Disclosures Contents

Basel II, Pillar III Disclosures

For the year ended 31 December 2009

1. Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiary together known as (the "Group").

The Board of Directors seeks to optimize the Bank's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Capital adequacy

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

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

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

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardized Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardized Measurement Approach for its Market Risk. All assets funded by unrestricted investment accounts are subject to Board approval.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Group is not consolidating its Subsidiary as being a commercial entity and it is risk weighted as per the requirement of CA Module. The Group's investment in associates is deducted in accordance with the materiality thresholds specified in Prudential Consolidation and Deduction Requirements Module.

All transfer of funds or regulatory capital within the Group is only carried out after proper approval process.

As part of the risk management practice, the Bank has already started the implementation of Sunguard system (BWCM) in phases to be Basel II compliant as prescribed by CBB.

2. Capital adequacy (continued)

Table – 1. Capital structure (PD-1.3.12, 1.3.13,1.3.15) *

The following table summarizes the eligible capital as of 31 December 2009 after deductions for Capital Adequacy Ratio (CAR) calculation;

	Tier 1 BD'000	Tier 2 BD'000
Components of capital		
Issued and fully paid ordinary shares	72,686	-
General reserves	1,000	-
Legal / statutory reserves	9,840	-
Share premium	43,936	-
Retained profit brought forward	11,380	-
Less:		
Current interim cumulative net losses	(18,634)	-
Unrealized gross losses arising from fair valuing equity securities	(2,636)	-
Tier 1 capital before PCD deductions	117,572	-
Asset revaluation reserve (45% only)		6,302
Unrealized gains arising from fair valuing equities (45% only)		156
Tier 2 Capital before PCD deductions	117,572	6,458
Total available capital		124,030
Deductions		
Significant minority investments in banking, securities and other financial entities unless pro-rata consolidated	(2,740)	(2,740)
Excess amount over materiality thresholds in case of investment in commercial entities	(3,726)	(3,726)
Investment in insurance entity greater than or equal to 20%	(797)	(797)
Excess amount over maximum permitted large exposure limit	(17,536)	(17,536)
Total Deductions	(24,799)	(24,799)
Tier 1 and Tier 2 eligible capital before additional deduction	92,774	(18,341)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(18,341)	18,341
Tier 1 and Tier 2 eligible capital	74,433	-
Total eligible capital		74,433

2. Capital adequacy (continued)

Table – 1. Capital structure (PD-1.3.12, 1.3.13,1.3.15) * (continued)

	Amount of exposures BD'000
Total credit risk weighted assets	463,217
Total market risk weighted assets	24,255
Total operational risk weighted assets	54,095
Total regulatory risk weighted assets	541,567
Capital adequacy ratio	**13.74%**
Minimum requirement	**12%**

* For the purposes of guidance we have cross referenced every table with the relevant para number of the Central Bank of Bahrain's public disclosures module.

Table – 2. Capital requirements by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the amount of exposures as of 31 December 2009 subject to standardized approach of credit risk and related capital requirements by type of Islamic financing contracts;

	Risk weighted assets BD'000	Capital requirements BD'000
Type of Islamic financing contracts		
Murabaha receivables	82,776*	9,933
Ijarah Muntahia Bittamleek	27,337*	3,280
Musharaka investments	18,553*	2,226
Mudaraba investments	2,493	299
Investment in Sukuk	18,545	2,225
Ijarah rental receivable	1,174	141
	150,878	18,104

2. Capital adequacy (continued)

Table – 3. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2009 subject to standardized approach of market risk and related capital requirements;

	Self financed BD'000	PSIA BD'000
Market risk - standardised approach		
Foreign exchange risk	1,910	-
Equities position risk	30	-
Total of market risk standardised approach	1,940	-
Multiplier	12.5	12.5
Total market risk weighted exposures	24,255	-
Eligible Portion for the purpose of the calculation	100%	30%
RWE to be used in CAR calculation	24,255	-
Total market risk exposures		24,255
Total market risk exposures - capital requirement		**2,911**

Table – 4. Capital requirements for operational risk (PD-1.3.30 (a & b)

The following table summarises the amount of exposures as of 31 December 2009 subject to basic indicator approach of operational risk and related capital requirements;

	Capital charge BD'000
Indicators of operational risk	
Average gross income	28,851
Multiplier	12.5
	360,633
Eligible portion for the purpose of the calculation	15%
Total operational risk exposure	54,094
Total operational risk exposures - capital requirement	**6,491**

2. Capital adequacy (continued)

Table – 5. Capital adequacy ratios (PD-1.3.20)

The following are capital adequacy ratios as of 31 December 2009 for total capital and Tier 1 capital;

	Total capital ratio	Tier 1 capital ratio
Top consolidated level	13.74%	13.74%

3. Risk management

3.1. Bank-wide risk management objectives

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

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

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels as per the ICAAP framework. The main objective of the Group's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Group undertakes in the course of its business.

3.2. Strategies, processes and internal controls

3.2.1. Bank's risk strategy

Capital management policies and risk charter define the bank's risk strategy. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the bank.

The risk charter identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.

Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarises the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

3. Risk management (continued)

3.2. Strategies, processes and internal controls (continued)

3.2.2 . Credit risk

The Bank manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it. The Group has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

3.2.3. Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions although they are insignificant. The Bank is in the process of developing techniques to carry out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Bank has established a limit structure to monitor and control the market risk in its trading and Available for sale equity portfolio. These limits include maximum loss limits, position limits, VaR limits and maturity limits.

3.2.4. Operational risk

The Bank will establish a self assessment process necessary for identifying and measuring its operational risks. The Bank has implemented SunGard's Operational Risk Management system 'SWORD' for recording the potential risks, controls and events. As part of implementation, the Bank has carried out Risk and Control Self Assessment ("RCSA") exercise with respective departments during 2009. The system also measures the Operational risk appetite based on the predefined limits/thresholds.

The Group has established a clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Bank, where possible.

3.2.5. Equity price risk

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

3.2.6. Profit rate risk

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

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

3.2.7. Displaced commercial risk

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Group manages its displaced commercial risk by placing gap limits between the returns paid to investors and market returns.

3. Risk management (continued)

3.2. Strategies, processes and internal controls (continued)

3.2.7. Displaced commercial risk (continued)

The Group is currently in the process of developing detailed written policies and procedures for displaced commercial risk. The Group may forego its fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

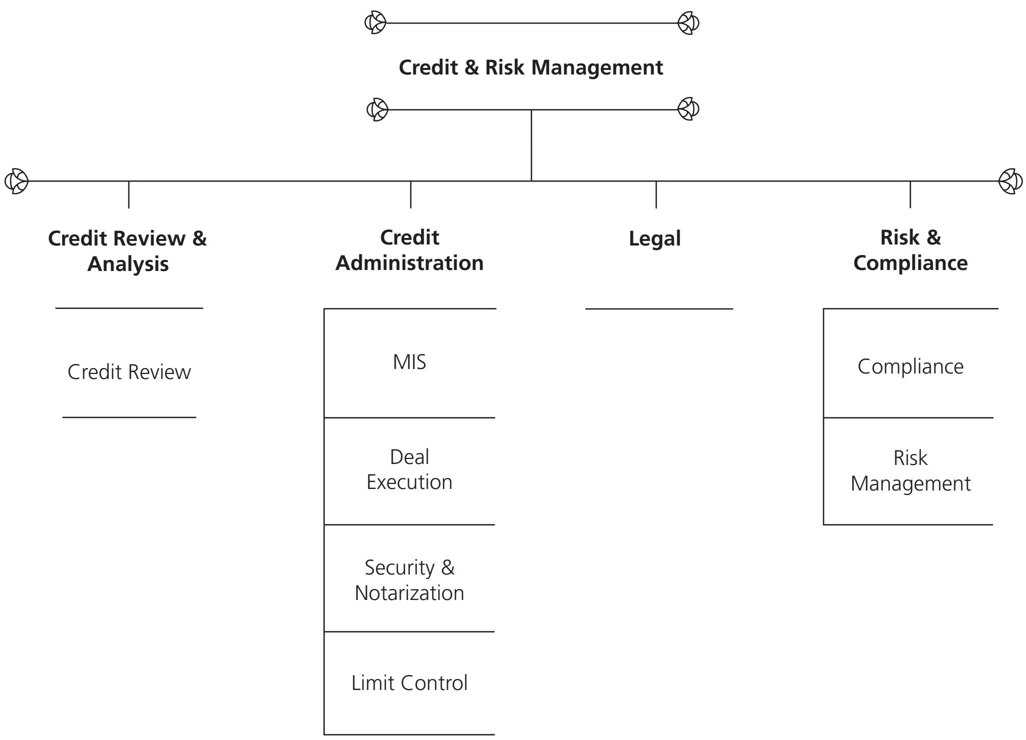
All the above strategies used have been effective throughout the reporting period.

3.3. Structure and organization of risk management function

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

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

a. Establishing overall policies
b. Delegating authority to Executive Committee, Credit Investment Committee, the Chief Executive Officer and further delegation to the management.



3. Risk management (continued)

3.4. Risk measurement and reporting systems

Based on risk appetite of the Bank, the Bank has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Bank has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Bank.

3.5. Credit risk

3.5.1. Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in form of mortgage financed or other tangible securities.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CR&AD"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment which examines the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. In addition, the Bank's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Bank. Corporate contracts/facilities are reviewed on an annual basis by CR&AD.

3.5.2. Types of credit risk

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

Murabaha receivables

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

3. Risk management (continued)

3.5. Credit risk (continued)

3.5.2. Types of credit risk (continued)

Mudaraba investments

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

Musharaka investments

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

Ijarah Muntahia Bittamleek

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

3.5.3. Past due and impaired Islamic financing

The Bank defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Bank's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as non performing, not only the overdue installments/payments.

As a policy the Group has placed on a non-accrual basis any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

3.5.4. External credit assessment institutions

The Bank relies on external ratings for rated corporate customers and counterparties. The Bank uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Bank will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents.

3.5.5. Definition of geographical area

The geographic distribution of the credit exposures is monitored on an ongoing basis by Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

3.5.6. Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

3. Risk management (continued)

3.5. Credit risk (continued)

3.5.7. Credit risk mitigation

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

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

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

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

From time to time, the Credit Committee reviews and approves the loan-able value of securities. It has also approved a list of acceptable securities.

The majority of the Group's current credit portfolio is secured through mortgage of commercial real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

3.5.7.1. General policy guidelines of collateral management

Acceptable Collaterals: The Bank has developed guidelines for acceptable collaterals. Assets offered by customers must meet the following criteria to quantify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;
b. Such assets should be easily convertible into cash, if required (liquidity);
c. There should be a reasonable market for the assets (marketability); and
d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

3. Risk management (continued)

3.5. Credit risk (continued)

3.5.7. Credit risk mitigation (continued)

3.5.7.1. General policy guidelines of collateral management (continued)

a. **Valuation of shares and goods:** Where competent staff is available within the Group, the valuation is conducted in-house. The Group performs in-house valuation on the following types of securities:

- Pledge of shares of local companies
- Pledge of international marketable shares and securities
- Pledge and hypothecation of goods

International shares are valued at the quotes available from stock exchanges, periodicals, etc.

b. **Valuation of real estate and others:** Besides assets mentioned above the valuation of following securities are also conducted:

- Real Estate
- Equipment and machinery
- Precious metals and jewelers

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities

b. All documents received as security or support for credit facilities will be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorized and acting within their capacity.

3.5.7.2. Guarantees

In cases where a letter of guarantee from parent company or a third party is accepted as credit risk mitigants, the Group ensures that all guarantees are irrevocable, legal opinion has been obtained from a legal counselor domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, if the guarantor / prime obligor is domiciled outside Bahrain and all guarantees should be valid until full settlement of the facilities. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

3.5.7.3. Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodian approved by the Group. The Credit Administration will obtain confirmation of the assets held with each custodian on an annual basis.

The release of collateral without full repayment of all related financial obligations requires authorization of the same level that originally approved sanctioning of the facility. Substitution of collateral is permitted if the new collateral would further minimize the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his authorized representative.

3. Risk management (continued)

3.5. Credit risk (continued)

3.5.8. Counterparty credit risk

The Group has adopted the Standardized Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal/external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade/deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

3.5.8.1. Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case counterparty fails to fulfill its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

3.5.8.2. Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

3.5.8.3. Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over other(s).

3.5.8.4. Connected counterparties

Connected counterparties are companies or individuals connected with the Group or its subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control, family links or otherwise), members of the Shari'a Supervisory Board, management and other staff and shareholders holding more than 10% or more of the equity voting rights in the Group.

3.5.8.5. Large exposure

Large exposure is any exposure whether direct, indirect or funded by unrestricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any counterparty (single/group) exposure exceeds 15% of Group's Capital Base; and
b.If any facility (new/extended) to an employee is equal or above BD100, 000 (or equivalent).

3.5.8.6. Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

3.5.8.7 . Reporting

The Group reports large counterparty exposures (as defined above) to CBB on periodic basis. The Group reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

3. Risk management (continued)

3.5. Credit risk (continued)

3.5.8. Counterparty credit risk (continued)

3.5.8.8. Other matters

As a Group's strategy exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis.

The Group shall not assume any exposure to its external auditors.

3.5.9. Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been made on arm's length basis.

Table – 6. Credit risk exposure (PD-1.3.23(a)

The following table summarises the amount of gross funded and unfunded credit exposure as of 31 December 2009 and average gross funded and unfunded exposures over the period from 1 January 2009 to 31 December 2009 allocated in own capital and current account and profit sharing investment account;

	Own capital and current account		Profit sharing investment account (PSIA)	
	Total gross credit exposure BD'000	*Average gross credit exposure over the period BD'000	Total gross credit exposure BD'000	*Average gross credit exposure over the period BD'000
Funded				
Cash and balances with Central Bank of Bahrain and other banks	12,683	15,957	23,410	25,182
Murabaha receivables	12,245	13,459	320,274	352,042
Mudaraba investments	38,634	37,637	14,736	26,877
Musharaka investments	2,980	3,047	77,939	79,709
Investments	46,568	56,557	87,627	69,816
Investment in associates	7,448	6,958	-	-
Investment in Ijarah assets	9,771	9,832	-	-
Ijarah Muntahia Bittamleek	4,391	3,595	114,853	94,031
Investment in properties	123,030	103,601	-	-
Ijarah rental receivables	133	70	3,470	1,825
Other assets	11,758	12,722	-	-
Unfunded				
Bank's liability under L/C & L/G	675	819	17,676	21,449
Total	270,316	264,254	659,985	670,931

*Average balances are computed based on month end balances.

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 7. Credit risk – Geographic breakdown (PD-1.3.23(b)

The following table summarises the geographic distribution of exposures as of 31 December 2009, broken down into significant areas by major types of credit exposure;

	Own capital and current account * Geographic area					Profit sharing investment account (PSIA) * Geographic area				
	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	**Total BD'000**	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	**Total BD'000**
Cash and balances with Central Bank of Bahrain and other banks	1,197	223	11,100	163	**12,683**	-	-	23,410	-	**23,410**
Murabaha receivables	-	695	11,550	-	**12,245**	-	18,184	302,090	-	**320,274**
Mudaraba investments	3,013	6,642	25,963	3,016	**38,634**	-	-	14,736	-	**14,736**
Musharaka investments	-	-	2,980	-	**2,980**	-	-	77,939	-	**77,939**
Investments	-	-	46,568	-	**46,568**	-	-	87,627	-	**87,627**
Investment in associates	-	-	7,448	-	**7,448**	-	-	-	-	-
Investment in Ijarah assets	-	-	9,771	-	**9,771**	-	-	-	-	-
Ijarah Muntahia Bittamleek	-	-	4,391	-	**4,391**	-	-	114,853	-	**114,853**
Investment in properties	-	-	123,030	-	**123,030**	-	-	-	-	-
Ijarah rental receivables	-	-	133	-	**133**	-	-	3,470	-	**3,470**
Other assets	-	-	11,758	-	**11,758**	-	-	-	-	-
Total	4,210	7,560	254,692	3,179	269,641	-	18,184	624,125	-	642,309

* Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty country of incorporation.

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 8. Credit risk – Industry sector breakdown (PD-1.3.23(c)

The following table summarises the distribution of exposures as of 31 December 2009 by industry, broken down into major types of credit exposure;

	Own capital and current account Industry sector				Profit sharing investment account (PSIA) Industry sector			
	Trading and manufacturing	Banks and financial institutions	Others	**Total**	Trading and manufacturing	Banks and financial institutions	Others	**Total**
	BD'000	BD'000	BD'000	**BD'000**	BD'000	BD'000	BD'000	**BD'000**
Funded								
Cash and balances with Central Bank of Bahrain and other banks	-	10,605	2,078	**12,683**	-	19,575	3,835	**23,410**
Murabaha receivables	3,636	3,149	5,460	**12,245**	95,111	82,369	142,794	**320,274**
Mudaraba investments	-	29,115	9,519	**38,634**	-	14,736	-	**14,736**
Musharaka investments	1,004	116	1,860	**2,980**	26,257	3,025	48,657	**77,939**
Investments	3,106	28,063	15,399	**46,568**	-	45,546	42,081	**87,627**
Investment in associates	-	7,448	-	**7,448**	-	-	-	-
Investment in Ijarah assets	-	-	9,771	**9,771**	-	-	-	-
Ijarah Muntahia Bittamleek	1,479	170	2,742	**4,391**	38,692	4,456	71,705	**114,853**
Investment in properties	-	-	123,030	**123,030**	-	-	-	-
Ijarah rental receivables	-	-	133	**133**	-	-	3,470	**3,470**
Other assets	-	-	11,758	**11,758**	-	-	-	-
Unfunded								
Bank's liability under L/C & L/G	359	292	24	**675**	9,405	7,625	646	**17,676**
Total	9,584	78,958	181,774	270,316	169,465	177,332	313,188	659,985

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 9. Credit risk – Intra-group transactions (PD-1.3.23(d)

The balances of major transactions with the subsidiary are as follows:

	Own capital and current account BD'000'	Profit sharing investment account (PSIA) BD'000	Total BD'000
Consolidated statement of financial position			
Customers' current accounts	114	-	**114**
Customers' investment accounts	-	850	**850**
Murabaha receivables	39	1,011	**1,050**
Other liabilities	12	-	**12**
Other assets	696	-	**696**
Investment in associates	25,000	-	**25,000**
Total	**25,861**	**1,861**	**27,722**

The income and expenses arising from dealing with the subsidiary included in the consolidated statement of income are as follows:

	Own capital and current account BD'000'	Profit sharing investment account (PSIA) BD'000	Total BD'000
Consolidated statement of income			
Income from Ijarah assets	1	37	**38**
Other expenses	21	-	**21**
Gross return to unrestricted investment accounts	4	97	**101**
Total	**26**	**134**	**160**

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 10. Credit risk – Financing facilities to highly leveraged or other high risk counterparties (PD-1.3.23(e)

Following balances representing the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2009;

	Own capital and current account BD'000'	Profit sharing investment account (PSIA) BD'000	Total BD'000
Counterparties			
Counterparty # 1	711	18,602	**19,313**
Counterparty # 2	756	19,778	**20,534**
Counterparty # 3	77	2,021	**2,098**
	1,544	**40,401**	**41,945**

Table – 11. Credit risk – Concentration of risk (PD-1.3.23(f)

Following balances representing the concentration of risk to individual counterparties as of 31 December 2009;

	Own capital and current account BD'000'	Profit sharing investment account (PSIA) BD'000	Total BD'000
Counterparties *			
Counterparty # 1	707	18,487	**19,194**
Counterparty # 2	11,915	11,050	**22,965**
	12,622	**29,537**	**42,159**

* The exposure is in excess of the 15% individual obligor limit and has been deducted from the eligible capital for the capital adequacy ratio calculation.

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 12. Credit risk – Residual contractual maturity breakdown (own capital and current accounts) (pd-1.3.23(g)

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 31 December 2009, broken down by major types of credit exposure;

	Own capital and current accounts										
	Up to One month BD'000	1-3 month BD'000	3-6 month BD'000	6-12 month BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	**Total BD'000**
Assets											
Cash & balance with the Central Bank of Bahrain and other Bank	12,683	-	-	-	-	-	-	-	-	-	**12,683**
Murabaha receivables	5,350	900	1,122	1,344	1,425	716	1,382	3	3	-	**12,245**
Mudaraba investments	505	-	59	-	-	-	-	-	38,070	-	**38,634**
Musharaka investments	748	211	247	151	368	611	333	247	64	-	**2,980**
Investments	209	30,438	-	199	1,611	1,057	41	-	-	13,013	**46,568**
Investment in associates	-	-	-	-	-	-	-	-	-	7,448	**7,448**
Investment in Ijarah assets	-	-	-	-	-	-	-	-	-	9,771	**9,771**
Ijara Muntahia Bittamleek	252	48	1,329	7	235	1,299	462	401	358	-	**4,391**
Investment in properties	-	-	-	-	-	-	-	-	-	123,030	**123,030**
Ijara rental receivables	-	-	133	-	-	-	-	-	-	-	**133**
Other assets	-	-	7,224	-	-	-	-	-	-	4,534	**11,758**
Total assets	**19,747**	**31,597**	**10,114**	**1,701**	**3,639**	**3,683**	**2,218**	**651**	**38,495**	**157,796**	**269,641**

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 13. Credit risk – Residual contractual maturity breakdown (profit sharing investment account) (pd-1.3.23(g)

The following table summarises the residual contractual maturity of profit sharing investment account breakdown of the whole credit portfolio as of 31 December 2009, broken down by major types of credit exposure;

	Profit sharing investment account (PSIA)										
	Up to one month BD'000	1-3 month BD'000	3-6 month BD'000	6-12 month BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	**Total BD'000**
Assets											
Cash & balance with the Central Bank of Bahrain and other Bank	-	-	-	-	-	-	-	-	-	23,410	**23,410**
Murabaha receivables	139,952	23,534	29,346	35,148	37,273	55,021	-	-	-	-	**320,274**
Mudaraba investments	13,185	-	1,551	-	-	-	-	-	-	-	**14,736**
Musharaka investments	19,562	5,511	6,457	3,940	9,642	15,983	8,707	6,461	1,676	-	**77,939**
Investments	5,462	6,111	-	5,215	42,133	27,633	1,073	-	-	-	**87,627**
Ijara Muntahia Bittamleek	6,608	1,267	34,768	191	6,122	33,947	12,083	10,491	9,376	-	**114,853**
Ijara rental receivables	-	-	3,470	-	-	-	-	-	-	-	**3,470**
Total assets	**184,769**	**36,423**	**75,592**	**44,494**	**95,170**	**132,584**	**21,863**	**16,952**	**11,052**	**23,410**	**642,309**

Table – 14. Credit risk – Impaired exposures, past due exposures and allowances (own capital and current account by industry sector) (pd-1.3.23(h)

The following table summarises the own capital and current account impaired facilities, past due facilities and allowances disclosed by major industry sector 31 December 2009;

	Own capital and current account									
	Non-performing or past due or impaired Islamic financing contracts	3 months to 1 year	1 to 3 years	Over 3 years	Balance at the beginning of the period	Charges during the period	Charge-offs during the period	Balance at the end of the period	General allowances beginning balance	General allowances movement	General allowances ending balance

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 15. Credit risk – Impaired exposures, past due exposures and allowances (profit sharing investment account by industry sector) (pd-1.3.23(h)

The following table summarises the profit sharing investment account impaired facilities, past due facilities and allowances disclosed by major industry sector 31 December 2009;

	Profit sharing investment account (PSIA)										
	Non-performing or past due or impaired Islamic financing contracts	3 months to 1 year	1 to 3 years	Over 3 years	Balance at the beginning of the period	Charges during the period	Charge-offs during the period	Balance at the end of the period	General allowances beginning balance	General allowances movement	General allowances ending balance
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Trading & manufacturing	40,941	16,658	103	695	1,016	19,417	-	20,433	-	-	-
Others	6,431	1,235	325	330	2,426	-	147	2,279	-	-	-
No specific sector	-	-	-	-	-	-	-	-	5,146	(353)	4,793
Total	**47,372**	**17,893**	**428**	**1,025**	**3,442**	**19,417**	**147**	**22,712**	**5,146**	**(353)**	**4,793**

* General allowance represents collective impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

Although the above table shows the portion of impairment related to PSIA, the Bank has taken all the provision to its own capital. Hence the URIA were not charged for any of the impairment.

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 16. Credit risk – Impaired exposures, by geographic area (pd-1.3.23(i)

The following table summarises the own capital and current accounts and profit sharing investment account impaired facilities, past due facilities and allowances disclosed by geographical area as of 31 December 2009;

	Own capital and current accounts			Profit sharing investment account (PSIA)		
	Past due Islamic financing contracts BD'000	Specific impairment provision BD'000	Collective impairment provision BD'000	Past due Islamic financing contracts BD'000	Specific impairment provision BD'000	Collective impairment provision BD'000
Middle East	1,811	868	183	47,372	22,712	4,793
Total	1,811	868	183	47,372	22,712	4,793

Table – 17. Credit risk – restructured financing facilities (pd-1.3.23(j)

The following table summarises the own capital and current account and profit sharing investment account restructured financing facilities as of 31 December 2009;

	Own capital and current account	Profit sharing investment account (PSIA)
	Aggregate amount BD'000	Aggregate amount BD'000
Restructured financing facilities	3,268	85,474
Total	3,268	85,474

The provision on restructured facilities is nil and the impact on present and future earnings is not significant.

3. Risk management (continued)

3.5. Credit risk (continued)

Table – 18. Credit risk mitigation crm (pd-1.3.25 (b) and (c)

The following table summarises the exposure as of 31 December 2009 by type of Islamic financing contract covered by eligible collateral after the application of haircuts;

	Total exposure covered by	
	Eligible collateral BD'000	Guarantees BD'000
Murabaha receivable	10,468	-
Musharaka investments	242	-
Ijarah Muntahia Bittamleek	22,340	-
Total	**33,050**	**-**

Table – 19. Counterparty credit (PD-1.3.26 (b)

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2009;

	BD'000
Gross positive fair value of contracts	911,950
Netting benefits	-
Netted current credit exposure	**911,950**
Collateral held:	
Cash	33,050
Shares	5,682
Real estate	261,627
Total	**300,359**

A haircut of 30% is applied on the real estate amount.

3. Risk management (continued)

3.6. Market risk

3.6.1. Introduction
The Bank has accepted the definition of market risk as defined by CBB as "the risk of losses in on- and off-balance-sheet positions arising from movements in market prices."

3.6.2. Sources of market risk
For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

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

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

Commodity risk; products may have an inherent risk as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

3.6.3. Market risk strategy
The Group's Board is responsible for approving and reviewing (at least annually), the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

1. The Group will manage its market risk exposure by evaluating each new product/ activity with respect to the market risk introduced by it;
2. The Group will proactively measure and continually monitor the market risk in its portfolio;
3. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;
4. The Group will establish a market risk appetite which will be quantified in terms of a market risk limit structure;
5. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, maximum/stop loss limits, factor sensitivity limits, VaR limits and maturity limits;

3. Risk management (continued)

3.6. Market risk (continued)

3.6.3. Market risk strategy (continued)

6. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions;
7. The Group will periodically carry out back testing of market risk assessment models in order to evaluate their accuracy and the inherent model risk;
8. The Group will match the amount of floating rate assets with floating rate liabilities; and
9. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

3.6.4. Market risk measurement methodology

Market risk measurement techniques includes the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;
b. Stop loss limits;
c. Factor sensitivity limits;
d. VAR limits; and
e. Profit rate risk gap analysis.

3.6.5. Market risk monitoring and limits structure

The Asset and Liability Committee (ALCO) proposes through EXCOM and Board the tolerance for market risk. Based on these tolerances, Risk and Compliance Department and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

3.6.6. Limits monitoring

The Treasury Department and Risk and Compliance Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters and report periodically to top management.

3.6.7. Breach of limits

In case a limit is breached, an approval from the GM of Credit and Risk Management ("GM-C&RM") is required to continue with the transaction. An immediate report is provided to the ALCO after every significant limit breach. This breach is also reported to the Executive Committee (EXCOM). The limits are revised at least bi-annually or when deemed required.

3.6.8. Portfolio review process

On a quarterly basis, Risk and Compliance Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk and Compliance Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk and Compliance Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the GM-C&RM and approval by the ALCO or EXCOM, as per the delegated authorities approved by the Board.

3. Risk management (continued)

3.6 . Market risk (continued)

3.6.9. Reporting

Risk and Compliance Unit generates over regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

3.6.10. Stress testing

Stress tests produce information summarizing the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk and Compliance Unit employs four stress categories: profit rates, foreign exchange rates, equity prices and commodity prices. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

3.6.11. Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 20. Market risk capital requirements (PD-1.3.27 (b)

The following table summarises the capital requirement for foreign exchange risk as of 31 December 2009;

	Foreign exchange risk BD'000
Foreign exchange risk	23,875
Foreign exchange risk capital requirement	2,865
Maximum value capital requirement	2,865
Minimum value capital requirement	1,618

The following table summarises the capital requirement for equity position risk as of 31 December 2009;

	Equity position risk BD'000
Equity position risk	375
Equity position risk capital requirement	45
Maximum value capital requirement	234
Minimum value capital requirement	45

3. Risk management (continued)

3.7. Operational risk

3.7.1. Introduction

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

3.7.2. Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories.

People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting; and

Systems (Technology) risk which arise due to integrity of information - lacking in timelines of information, omission and duplication of data; hardware failures due to power surge, obsolescence, low quality.software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug etc.

3.7.3. Operational risk management strategy

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk and Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise, to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;
b. regularly monitor operational risk profiles and material exposures to losses; and
c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of ag gregated losses from a single event leading to other risks.

3.7.4. Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

3. Risk management (continued)

3.7. Operational risk (continued)

3.7.5. Operational risk mitigation and control

The business units, in consultation with Risk and Compliance Unit will determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with Risk and Compliance Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group or withdraw from the associated activity completely. Risk and Compliance Unit facilitates the business units in co-developing the mitigation plans.

3.7.6. Business continuity plan (BCP)

The Group has also developed a comprehensive business continuity plan detailing the steps to be taken in the event of extreme conditions to resume the Group's operations with minimum delay and disturbance. The plan is in implementation stage. Elements of contingency plans and disaster recovery processes include operating systems, physical space, telecommunications and resources.

The plan is reviewed periodically to assess and incorporate changes in the business and market conditions.

3.8. Equity position in the banking book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements. Available for sale investments and investments in properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

Table – 21. Equity position risk in banking book (pd-1.3.31 (b) (c) & (f)

The following table summarises the amount of total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2009;

	Total gross exposure BD'000	* Average gross exposure BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital requirements BD'000
Equity investments	50,370	60,821	29,908	20,462	51,957	6,235
Funds	38,071	36,609	-	38,071	64,846	7,782
Total	88,441	97,430	29,908	58,533	116,803	14,017

*Average balances are computed based on month end balances.

3. Risk management (continued)

3.8. Equity position in the banking book (continued)

Table – 22. Equity gains or losses in banking book (pd-1.3.31 (d) & (e)

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended 31 December 2009;

	BD'000
Cumulative realized losses arising from sales or liquidations in the reporting period	(2,005)
Total unrealized losses recognized in the balance sheet but not through P&L	(1,431)
Unrealized losses included in Tier 1 Capital	(2,636)
Unrealized gains included in Tier 2 Capital	346

3.9. Unrestricted investment accounts ("URIA")

The Group may require to decrease or increase loses or profit on certain unrestricted investments for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by unrestricted Investment Account Holders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by unrestricted IAH on a pro-rata basis.

The Group is currently in the process of developing written policies and procedures applicable to its portfolio of unrestricted investment accounts. URIA funds are invested and managed in accordance with Shari'a requirements.

Table – 23. Unrestricted investment account (PD-1.3.33 (a)

The following table summarises the breakdown of unrestricted investment accounts as of 31 December 2009;

	BD'000
Customers	522,379
Banks and other financial institutions	157,914
Profit equalisation reserve	-
Investment risk reserve	-
Total	680,293

Table – 24. Unrestricted investment account ratios (PD-1.3.33 (d) & (f)

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2009;

Profit Paid on Average URIA Assets *	10.98%
Mudarib Fee to Total URIA Profits	40%

* Average assets funded by URIA have been calculated using quarterly amounts.

3. Risk management (continued)

3.9. Unrestricted investment accounts ("URIA") (continued)

Table – 25. Unrestricted investment account ratios (PD-1.3.33 (c), (e) & (g)

The following table summarises the profit distributed to PSIA and financing to PSIA ratios to the total of PSIA by type of investment account holder for the year ended 31 December 2009;

Type of investment account holder	Profit distributed to total IAH	Percentage to total IAH
Saving accounts	2.38%	9.81%
Defined accounts - 1 month	1.22%	2.31%
Defined accounts - 3 months	0.55%	0.65%
Defined accounts - 6 months	0.54%	0.59%
Defined accounts - 9 months	0.02%	0.02%
Defined accounts - 1 year	3.24%	3.25%
Investment certificates	0.66%	0.50%
IQRA deposits	0.06%	0.06%
Tejoori deposit	1.06%	4.45%
Time deposits - clients	78.62%	51.03%
Bank's deposits	11.65%	27.33%
	100.00%	100.00%

As of 31 December 2009, the bank did not have any balance in the investment risk reserve.

The calculation and distribution of profits was based on average balances.

Table – 26. Unrestricted investment account financing to total financing (PD-1.3.33 (h)

The following table summarises the percentage of financing for each type of Shari'a-compliant contract to total financing as of 31 December 2009;

	Percentage of financing to total financing
Murabaha receivables	51.75%
Mudaraba investments	2.38%
Musharaka investments	12.59%
Ijarah Muntahia Bittamleek	18.56%
Investment in Sukuk	14.16%
Ijarah rental receivable	0.56%

3. Risk management (continued)

3.9. Unrestricted investment accounts ("URIA") (continued)

Table – 27. Unrestricted investment account share of profit (PD-1.3.33 (l) (m) & (n)

The following table summarises the share of profits earned by and paid out to unrestricted investment accounts and the Group as Mudarib for the year ended 31 December 2009;

Share of profit earned by IAH before transfer to/from reserves - BD '000'	17,638
Percentage share of profit earned by IAH before transfer to/from reserves	2.59%
Share of profit paid to IAH after transfer to/from reserves - BD '000'	17,638
Percentage share of profit paid to IAH after transfer to/from reserves	2.59%
Share of profit paid to Bank as mudarib - BD '000'	11,517

Table – 28. Profit equalisation and investment risk reserve movement (PD-1.3.33 (o) & (p)

The following table summarises the movement on profit equalisation reserve (PER) and investment risk reserve (IRR) and utilization and computation of PER and/or IRR during the year ended 31 December 2009;

	Profit equalisation reserve BD'000	Investment risk reserve BD'000
Opening balance	2,368	167
Amount appropriated	-	-
Amount utilized	(2,368)	(167)
Closing balance	-	-

Table – 29. Unrestricted investment account percentage return to profit rate of return (PD-1.3.33 (q)

The following table summarises the average declared rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2009;

	3 month	6 month	12 month	36 month
Percentage of average declared rate of return to profit rate of return	2.68%	2.94%	3.14%	4.00%

3. Risk management (continued)

3.9. Unrestricted investment accounts ("URIA") (continued)

Table – 30. Unrestricted investment account type of assets (PD-1.3.33 (r) & (s)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2009;

	Opening actual allocation BD'000	Movement BD'000	Closing actual allocation BD'000
Cash and balances with Central Bank of Bahrain and other banks	24,150	(740)	23,410
Murabaha receivables	378,586	(58,312)	320,274
Mudaraba investments	19,541	(4,805)	14,736
Musharaka investments	79,231	(1,292)	77,939
Investment in sukuk	72,738	14,889	87,627
Ijarah muntahia bittamleek	90,715	24,138	114,853
Ijarah rental receivable	1,445	2,025	3,470
Total	**666,406**	**(24,097)**	**642,309**

Table – 31. Unrestricted investment account profit earned and paid (PD-1.3.33 (w)

The following table summarises the amount and percentage of profits earned by the Group and paid out to profit sharing investment accounts over the past five years;

	Profit earned (jointly financed)		Profit paid to (PSIA)	
	BD'000	%age	BD'000	%age
2009	**35,694**	**5.27%**	**17,638**	**2.61%**
2008	36,934	5.87%	17,702	2.81%
2007	31,463	7.80%	15,609	3.87%
2006	24,705	8.12%	12,660	4.16%
2005	12,348	6.24%	5,056	2.56%

3. Risk management (continued)

3.10. Liquidity risk

3.10.1. Introduction
Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

3.10.2. Sources of liquidity risk
The sources of liquidity risk can broadly be categorized in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;
b. Call risk is the risk of crystallization of a contingent liability; and
c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

3.10.3. Bank's funding strategy
The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed required. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the balance sheet. The Bank is in the process of developing a liquidity contingency plan to deals with stressed scenarios and outlines an action plan that can be taken in the event of a loss of market liquidity.

3.10.4. Liquidity risk strategy
The Group monitors the liquidity position by comparing maturing assets and liabilities in different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, over 3 years and no fixed maturity. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Group's is in the process of implementing contingency liquidity plan to meet urgent liquidity requirements in stressed conditions that addresses how funding liquidity would be managed if either their specific financial conditions were to decline or broader conditions created a liquidity problem.

The Treasury Department, in conjunction with Risk and Compliance Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the EXCOM and the Board for approval.

3.10.5. Liquidity risk measurement tools
The Group uses a combination of techniques for measurement of its liquidity risk. These include liquidity gap analysis, liquidity ratio limits and minimum liquidity guidelines.

3.10.6. Liquidity risk monitoring
The Group has set the tolerance for liquidity risk which are communicated to the Risk and Compliance Department and Treasury Department. Based on these tolerances, Risk and Compliance Department and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations.

3. Risk management (continued)

3.10. Liquidity risk (continued)

3.10.7. Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity gap limits;
b. Liquidity ratio limits; and
c. Minimum liquidity guideline ("MLG").

3. 10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

3.10.9. Contingency funding plan

The Group does contingency funding plan/ exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 32 Treatment of assets financed by PSIA (PD-1.3.33-v)

	Assets BD'000	RWA BD'000	Capital adequacy purposes BD'000	Capital requirements BD'000
Cash and balances with Central Bank of Bahrain and other banks	23,410	-	-	-
Murabaha receivables	320,274	196,884	59,065	7,088
Mudaraba investments	14,736	7,372	2,212	265
Musharaka investments	77,939	60,566	18,170	2,180
Investment in sukuk	87,627	48,239	14,472	1,737
Ijarah muntahia bittamleek	114,853	89,243	26,773	3,213
Ijarah rental receivable	3,470	3,470	1,041	125
	642,309	405,774	121,733	14,608

3. Risk management (continued)

3.10. Liquidity risk (continued)

Table – 33. Liquidity ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years;

	2009	2008	2007	2006	2005
Commodities Murabaha / total assets	**10.42%**	14.98%	27.37%	40.93%	32.71%
Islamic financing / customer deposits excluding banks	**123.01%**	144.62%	171.72%	224.08%	175.15%
Customer deposits / total assets	**57.28%**	48.71%	36.04%	34.99%	43.94%
Liquid assets / total assets	**14.38%**	20.66%	30.16%	44.47%	35.96%
Growth in customer deposits	**21.98%**	79.24%	55.50%	8.39%	9.61%

3.11. Profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;
b. Mudaraba transactions;
c. Ijarah Muntahia Bittamleek; and
d. Sukuk.

The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and unrestricted investment accounts as the repricing of assets, liabilities and unrestricted investment accounts occur at similar intervals. The profit distribution to unrestricted investment accounts is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

3.11.1. Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to EXCOM and the Board of Directors. The Risk and Compliance Unit monitors these limits regularly. GM-C&RM reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or EXCOM, according to authority parameters approved by the Board.

3. Risk management (continued)

3.11. Profit rate risk (continued)

3.11.1. Profit rate risk monitoring and reporting (continued)

Table – 34. Profit rate risk in banking book (PD-1.3.40 (b)

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200bp in profit rates as of 31 December 2009;

	Effect on value of asset BD'000	Effect on value of liability BD'000	Effect on value of economic capital BD'000
Upward rate shocks:	**(6,095)**	**9,980**	**3,885**
Downward rate shocks:	**6,095**	**(9,980)**	**(3,885)**

Table – 35. Quantitative indicators of financial performance and position (PD-1.3.9(b)

The following table summarises the basic quantitative indicators of financial performance for the past 5 years;

	2009	2008	2007	2006	2005
Return on average equity	**-12.64%**	12.62%	19.10%	17.80%	11.56%
Return on average assets	**-2.17%**	2.91%	4.57%	3.45%	2.57%
Cost to income ratio	**70.66%**	31.32%	32.41%	38.76%	41.35%

The worldwide credit crisis has also impacted the markets in the GCC. Like every other financial institution, the current market environment has both a direct and indirect impact on the Group. Nevertheless, we have been proactive in ensuring that the Group maintains a strong liquidity and capital position with minimal long term funding or refinancing pressure.

3. Risk management (continued)

3.12. Corporate governance and transparency

Table – 36. Corporate governance and transparency – Board members profile (PD-1.3.10(b)

The information about the qualification and experience of each member is given on pages 16 and 17

No Board member has more than one directorship of a retail bank or a wholesale bank.

Remuneration of board members and Shari'a board members is approved in the AGM after being discussed at the board level. Remuneration of CEO is approved in the board meeting. For all Group staff there is a fixed bonus plus a performance bonus scheme. Performance bonus is based on staff performance and recommendation of respective departmental heads. The board approves all fixed and performance bonus schemes for staff.

Table – 37. Corporate governance and transparency – Executive members' profile (PD-1.3.10(b)

The following table summarises the information about the profession, experience and the qualifications of each executive member;

Name	Designation	Profession	Experience	Qualification
Mohammed Ebrahim Mohammed	Chief Executive	Banker	32 Years	Master degree in Business Administration from University of Glamorgan- Wales 1998
A. Rahman Mohammed Turki	General Manager- Retail Banking	Banker	37 Years	Master Degree in Business Administration from University of Strathclyde Scotland 2002
Dr. Salah El Din Saeed	General Manager- Credit & Risk	Banker	32 Years	MBA from University of Hull 1998
Ali A.Karim	Assistant General Manager- Treasury & Investment	Banker	15 Years	Associate accounting diploma from university of Bahrain & Banking and Finance diploma (BIBF)
Nader Ebrahim	General Manager- Corporate Banking	Banker	27 Years	Executive Management & Leadership from University of Virginia, USA
Mohammed Ahmed Hassan	General Manager- Support Services	Banker	41 Years	Advance Management for Senior Decision Makers
Khalid Mohammed Al Dossari	Chief Financial Officer	Accountant	26 Years	CPA from American Institute of Certified Public Accountant
Khalid Mahmood Abdulla	Assistant General Manager - Internal Audit & Sharia	Accountant	16 Years	CPA from American Institute of Certified Public Accountant

3. Risk management (continued)

3.12. Corporate governance and transparency (continued)

Table – 38. Corporate governance and transparency – Management committees profile (PD-1.3.10(b)

The following table summarises the information about management committees, their members and objectives;

Board committee	Members	Objective
Asset & liability committee (ALCO)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • A. Rahman Turki • Ali A. Karim • Salah Adden A. Qader • Mohammed Belgami • Khalid Al Dosari (Secretary)	The main objective of ALCO is to mange and monitors the liquidity risk of the Bank on coordinated and consistent basis.
Credit & investment committee (C&IC)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • A. Rahman Turki • Khalid Al Dosari • Ali A.Karim • Salah Adden A. Qader Secretary Badriya A. Ghani	The main objectives of C&IC is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.
Information technology committee (IT)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • Salah Adden A. Qader • Khalid AL Dossari • AbdulRazaq Abdulkhaliq • Khalid Mahmood • Mohammed Hassan • Ali A. Karim Secretary Mohammed Shafiee	The main objective of the IT Committee is to plan, prepare, coordinate, implement, support and follow-up on all issues related to the IT and new projects implementation issue.

3. Risk management (continued)

3.12. Corporate governance and transparency (continued)

Table – 38. Corporate governance and transparency – Management committees profile (PD-1.3.10(b)

	Members	Objective
Human Resource Committee (HR)	Chairman Mohammed Ebrahim Members • Nader Ebrahim • Mohammed Hassan • A.Rahman Turki • Khalid Al Doosari • Ali A. Karim • Salah Adden A. Qader • Khalid Mahmood Secretary Aziz Ashor	The main objectives of HR Committee is to monitor and assess the employer workforce regarding human resources issues and monitor, review and analyze legislative and/or administrative changes related to human resources.
Qarth Al Hassan, Donation & Zakah	Chairman Mohammed Hassan Members • Isa Ahmed (Secretary) • Mustafa Al Khohaji • Ramadhan Ali Ramadhan	The main objective of Qard Al Hassan and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.

New product information, banks new announcement and information related to stakeholders are made available in timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media.

In addition, the consolidated financial statement of at least past 3 years are available in the bank's website.

The Group has a quality assurance department which is responsible for managing customer complaints. After receiving a complaint, the department routes the complaint to the concerned department for their response. After analyzing the responses of the concerned department the customer is contacted accordingly. The customers may use the Group's website or the call centre for lodging a complaint.

4. Others

Additional information on shareholding pattern

i) Names nationalities and number of shares of the major shareholders who have an interest of 5% or more of outstanding shares;

At 31 December		2009		2008	
Names	Nationality	No. of shares	% holding	No. of shares	% holding
Investment Dar	Kuwait	290,591,510	39.89%	264,611,600	39.95%
Islamic Development Bank	Saudi	94,745,420	13.00%	86,132,200	13.00%
General Council of Kuwaiti Awaqaf	Kuwait	67,946,033	9.33%	61,769,121	9.33%
Kuwait Investment Company S.A.K	Kuwait	63,407,126	8.70%	57,642,842	8.70%

ii) The bank has only one class of shares and the holders of these shares have equal voting rights.

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

At 31 December		2009			2008	
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	126,577,716	3,423	17.37%	114,762,558	3,414	17.33%
1% up to less than 5%	85,296,595	5	11.71%	77,435,679	5	11.69%
5% up to less than 10%	131,353,159	2	18.03%	119,411,963	2	18.03%
10% up to less than 50%	385,336,930	2	52.89%	350,743,800	2	52.95%
Total	728,564,400	3,432	100.00%	662,354,000	3,423	100.00%

Details of directors' interests in the bank's shares as at the end of the year were:

Categories:	2009		2008	
	No. of shares	No. of directors	No. of shares	No. of directors
Less than 1%	2,759,217	7	2,415,965	9

The following is the number of shares, and percentage of shareholding of directors and senior management (assistant general manager and above)

	2009		2008	
	No. of shares	Percentage of shareholding	No. of shares	Percentage of shareholding
Directors	2,759,217	0.38%	2,415,965	0.36%
Senior management	1,676	0.0002%	1,524	0.0002%
Total	2,760,893	0.38%	2,417,489	0.36%

5. Glossary of terms

ALCO	Assets and liabilities committee
BCP	Business continuity plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis point value
CA Module	Capital adequacy module
CAR	Capital adequacy ratio
CBB	Central Bank of Bahrain
CRMD	Credit and risk management department
CR & AD	Credit review and analysis department
C&IC	Credit and investment committee
DCR	Displaced commercial risk
Excom	Executive committee
FX	Foreign exchange
GM-C&RM	General Manager-Credit and risk management
Group	Bahrain Islamic Bank B.S.C. and its subsidiary
HR Committee	Human resource committee
IAH	Investment account holder
ICAAP	Internal capital adequacy assessment process
IFRS	International financial reporting standards
IT Committee	Information technology committee
IRR	Investment risk reserve
MLG	Minimum liquidity guidelines
PCD	Prudential consolidation and deduction requirements module
PD	Public disclosure
PER	Profit equalisation reserve
PSIA	Profit sharing investment account
RCSA	Risk and control self-assessment
RMC	Risk management committee
RWE	Risk weighted exposures
URIA	Unrestricted investment accounts
VaR	Value-at-risk

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e-Banking	Tel: +973 1751 5115	Fax: +973 1791 9115
Financial Control	Tel: +973 1754 6188	Fax: +973 1791 6188
Human Resources & Services	Tel: +973 1751 5995	Fax: +973 1791 5195
Information Technology	Tel: +973 1754 6202	Fax: +973 1791 6202
Internal Audit	Tel: +973 1754 6133	Fax: +973 1791 6133
Internal Sharia's Supervision	Tel: +973 1751 5173	Fax: +973 1791 9173
Retail Banking	Tel: +973 1751 5180	Fax: +973 1791 9180
Treasury & Investment	Tel: +973 1751 5182	Fax: +973 1753 5666

ATM Branch Locations

No.	Location	No.	Location
1.	Budaiya	7.	Main
2.	Gudaibiya	8.	Manama
3.	Hamad Town*	9.	Muharraq*
4.	Hidd	10.	Riffa*
5.	Isa Town*	11.	Sitra
6.	Jidhafs*	12.	Um Al-Hassam

* 2 ATMs at this location

Offsite ATM Locations

No.	Location	No.	Location
1.	24 Hours Market - A'ali	17.	Bukowara Road Riffa
2.	24 Hours Market - Arad	18.	Dana Mall
3.	24 Hours Market -Busaiteen Petrol Station	19.	E-Max Muharraq
4.	24 Hours Market - Country Mall, Budaiya	20.	GOSI Complex
5.	24 Hours Market - Golden Sands, Hoora	21.	Galali - near Al Muntazah
6.	24 Hours Market - Hamala	22.	Hamad Town (near Roundabout 22)
7.	24 Hours Market - Sehla Petrol Station	23.	Jawad Dome - Barbar*
8.	24 Hours Market - Trinity	24.	Jawad Supermarket - Nuwaidrat*
9.	Al Salam Tower - Lobby	25.	Lulu Hypermarket - Riffa
10.	Arabian Gulf University	26.	Ministry of Education - Isa Town
11.	Arad Petrol Station*	27.	Ruyan Salmabad
12.	BisB Contact Center - Al Zinj	28.	Ruyan Sanad
13.	Bahrain City Centre (Carrefour)	29.	Tubli Petrol Station*
14.	Bahrain City Centre (Gate 2)	30.	Seef Mall
15.	Bahrain City Centre (Gate 3)	31.	Seef Mall 2
16.	Bahrain International Airport Arrivals		

* Drive-Thru ATM

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4. Hamad Town	Tel: +973 1741 8111	Fax: +973 1741 4533
5. Hidd	Tel: +973 1735 8555	Fax: +973 1746 7030
6. Isa Town	Tel: +973 1768 0044	Fax: +973 1768 2289
7. Jidahafs	Tel: +973 1755 3983	Fax: +973 1755 3139
8. Head Office (Diplomatic Area)	Tel: +973 1754 6111	Fax: +973 1753 5707
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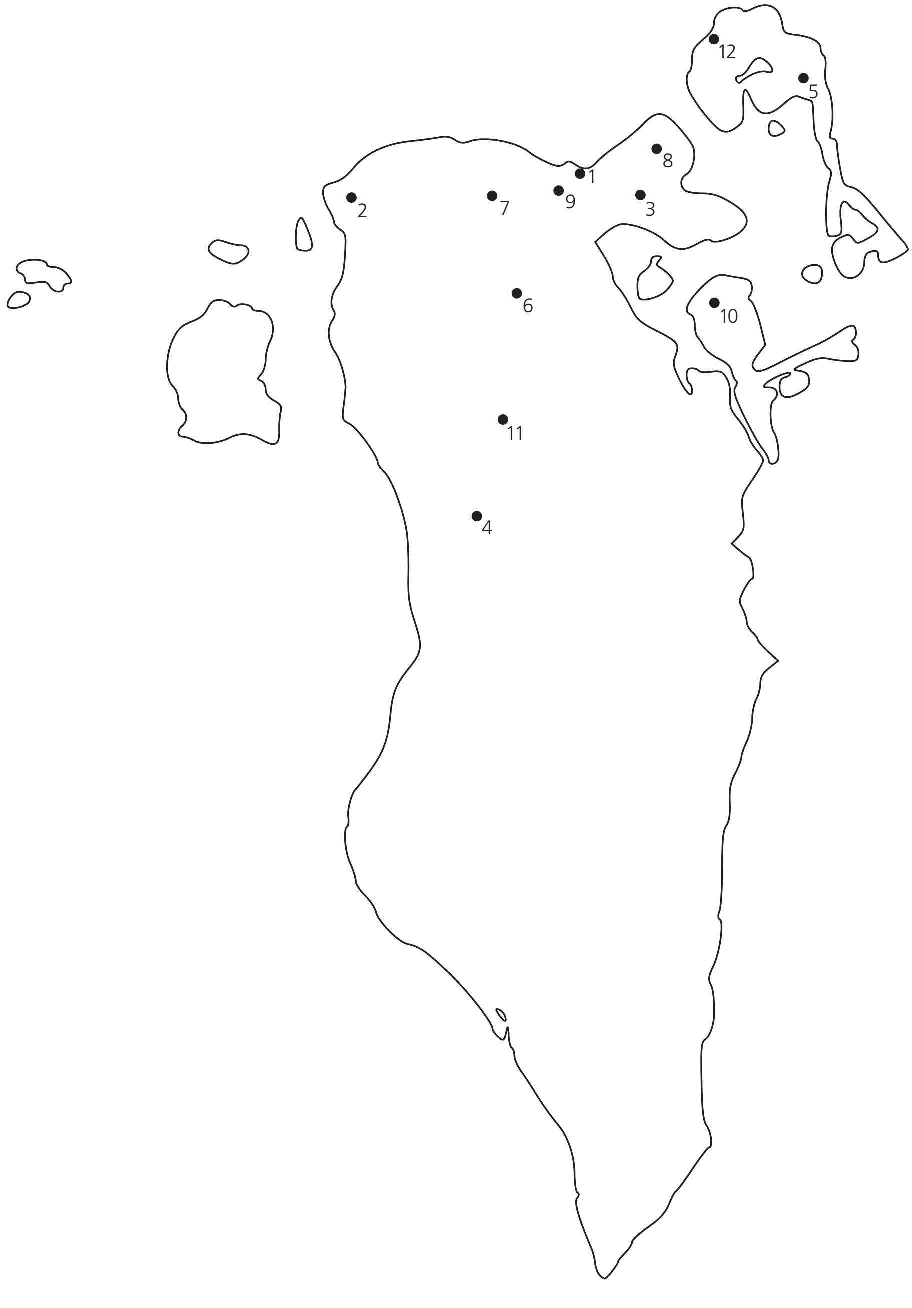
10. Muharraq	Tel: +973 1734 8048	Fax: +973 1734 2795
11. Riffa	Tel: +973 1776 8333	Fax: +973 1777 7510
12. Sitra	Tel: +973 1745 8008	Fax: +973 1773 7610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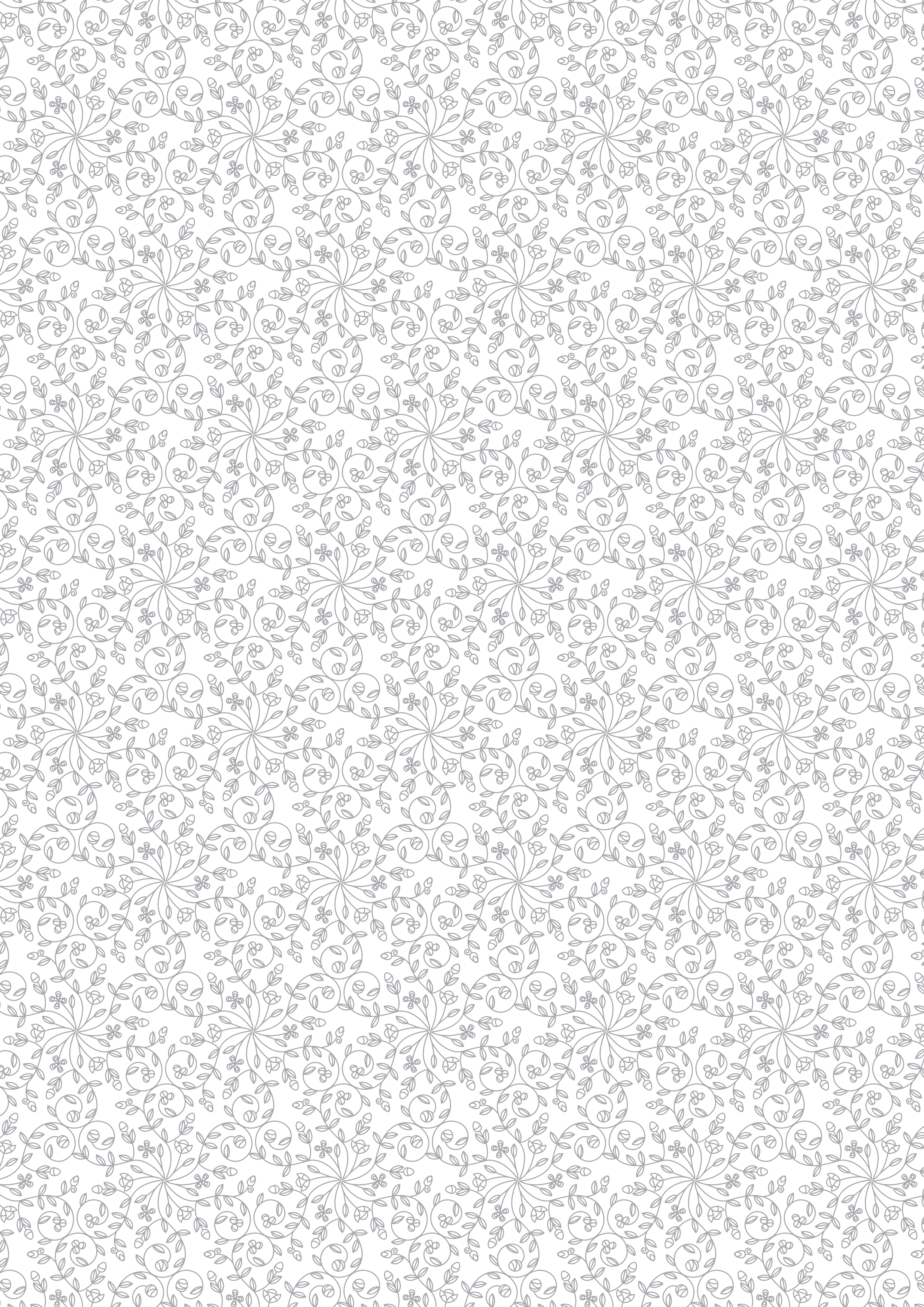

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