

Liquidity Management Centre B.S.C. (c)

**SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2009

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
LIQUIDITY MANAGEMENT CENTRE B.S.C. (c)**

We have audited the accompanying consolidated balance sheet of Liquidity Management Centre B.S.C. (c) [the "Bank"] and its subsidiary [together the "Group"] as of 31 December 2009, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions. 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

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.

Liquidity Management Centre B.S.C. (c)

CONSOLIDATED BALANCE SHEET

31 December 2009

	<i>Note</i>	2009 US\$ 000	2008 US\$ 000
ASSETS			
Cash and balances with banks		3,676	1,149
Due from banks		23,200	15,000
Mudaraba receivable	3	8,000	-
Ijarah receivables	4	10,000	-
Murabaha receivables	5	-	13,807
Financing receivable	6	15,000	-
Investments	7	231,396	242,598
Other assets	8	5,780	3,868
Equipment		1,351	369
TOTAL ASSETS		298,403	276,791
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Short Term Sukuk - investors	9	123,584	161,748
Due to banks		109,205	42,997
Due to non bank		-	13,604
Other liabilities	10	3,638	2,132
TOTAL LIABILITIES		236,427	220,481
EQUITY			
Share capital	11	51,000	51,000
Reserves	11	8,612	5,555
Retained earnings / (Accumulated deficit)	11	2,224	(245)
Proposed appropriations		140	-
TOTAL EQUITY		61,976	56,310
TOTAL LIABILITIES AND EQUITY		298,403	276,791

Mohammed Tariq
Chairman

Emad Al Monayea
Deputy Chairman

Ahmed Abbas
Chief Executive Officer

The attached notes 1 to 25 form part of these consolidated financial statements

Liquidity Management Centre B.S.C. (c)
CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2009

	<i>Note</i>	2009 US\$ 000	2008 <i>US\$ 000</i>
Income from investments		10,121	13,432
Income from Murabaha and due from banks		817	896
Income from financing receivable		626	-
Income from Mudaraba		22	116
Income from Ijarah receivables		154	-
Less: Return to Short Term Sukuk - investors		(3,203)	(7,714)
Less: Return to banks		(1,823)	(712)
Less: Return to non banks		(223)	(469)
Less: Ijarah expense - net	12	(916)	(49)
		5,575	5,500
Investment banking fees	13	5,444	1,017
Fair value changes	14	-	6,213
Loss on held for trading investments		(95)	(322)
Foreign exchange (loss) / gain		(141)	534
OPERATING INCOME		10,783	12,942
Staff costs		3,795	4,303
Depreciation		134	89
General and administrative expenses	15	1,536	1,181
OPERATING EXPENSES		5,465	5,573
NET PROFIT FOR THE YEAR BEFORE IMPAIRMENT PROVISION		5,318	7,369
Specific impairment provision	16	1,807	5,627
Collective impairment provision		310	700
NET PROFIT FOR THE YEAR		3,201	1,042

The attached notes 1 to 25 form part of these consolidated financial statements

Liquidity Management Centre B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	2009 US\$ 000	2008 US\$ 000
OPERATING ACTIVITIES		
Net profit for the year	3,201	1,042
Adjustments for:		
Depreciation	134	89
Amortisation of premium on investments	(281)	(286)
Fair value changes	-	(6,213)
Loss on held for trading investments	95	322
Specific impairment provision	1,807	5,627
Collective impairment provision	310	700
Directors' remuneration	100	-
Operating profit before changes in operating assets and liabilities:	<u>5,366</u>	<u>1,281</u>
Changes in:		
Mudaraba receivable	(8,000)	-
Ijarah receivables	(10,000)	-
Financing receivable	(15,000)	-
Other assets	(2,032)	6,325
Due to Short Term Sukuk - investors	(38,164)	(46,833)
Due to banks	66,208	41,009
Due to non bank	(13,604)	(3,396)
Other liabilities	1,506	(177)
Purchase of investments held to maturity	(11,500)	(13,069)
Sale/redemption proceeds from investments held to maturity	25,226	38,969
Purchase proceeds of available-for-sale investments	(29,357)	(7,382)
Sale/redemption of investment available-for-sale	28,030	6,013
Sale of trading investment	65	121
Purchase of trading investments	(608)	-
Purchase of investment available-for-sale through statement of income	-	(862)
Directors' remuneration paid	(100)	(356)
Net cash (used in) / from operating activities	<u>(1,964)</u>	<u>21,643</u>
INVESTING ACTIVITY		
Purchase of equipment	(1,116)	(197)
Net cash used in investing activity	<u>(1,116)</u>	<u>(197)</u>
FINANCING ACTIVITIES		
Dividend paid	-	(5,100)
Net cash used in financing activities	<u>-</u>	<u>(5,100)</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(3,080)	16,346
Cash and cash equivalents at 1 January	<u>29,956</u>	<u>13,610</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>26,876</u>	<u>29,956</u>
Cash and cash equivalents at year end comprise of:		
Cash and balances with banks	3,676	1,149
Murabaha receivables with original maturity of ninety days or less	-	13,807
Due from banks with original maturity of ninety days or less	23,200	15,000
	<u>26,876</u>	<u>29,956</u>

The attached notes 1 to 25 form part of these consolidated financial statements

Liquidity Management Centre B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Reserves					Total Reserves US\$ 000	Retained earnings/ (Accumulated deficit) US\$ 000	Proposed appropriations US\$ 000	Total equity US\$ 000
	Share capital US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Investment fair value reserve US\$ 000	Foreign exchange translations US\$ 000				
Balance at 1 January 2009	51,000	1,930	1,930	2,199	(504)	5,555	(245)	-	56,310
Cumulative changes in fair value*	-	-	-	1,961	-	1,961	-	-	1,961
Foreign currency translation	-	-	-	-	134	134	-	-	134
Transfer to statement of income	-	-	-	-	370	370	-	-	370
Directors' remuneration	-	-	-	-	-	-	(140)	140	-
Total income and expenses recognised directly in equity	-	-	-	1,961	504	2,465	(140)	140	2,465
Net profit for the year	-	-	-	-	-	-	3,201	-	3,201
Total income and expenses recognised during the year	-	-	-	1,961	504	2,465	3,061	140	5,666
Transfer to statutory reserve	-	296	-	-	-	296	(296)	-	-
Transfer to general reserve	-	-	296	-	-	296	(296)	-	-
Balance at 31 December 2009	51,000	2,226	2,226	4,160	-	8,612	2,224	140	61,976
Balance at 1 January 2008	51,000	1,930	1,930	448	-	4,308	10,026	-	65,334
Cumulative changes in fair value	-	-	-	(4,429)	-	(4,429)	-	-	(4,429)
Foreign currency translation	-	-	-	-	(504)	(504)	-	-	(504)
Realised gain transferred to consolidated statement of income	-	-	-	(33)	-	(33)	-	-	(33)
Total income and expenses recognised directly in equity	-	-	-	(4,462)	(504)	(4,966)	-	-	(4,966)
Transfer of fair value gain to reserve	-	-	-	6,213	-	6,213	(6,213)	-	-
Net profit for the year	-	-	-	-	-	-	1,042	-	1,042
Total income and expenses recognised during the year	-	-	-	1,751	(504)	1,247	(5,171)	-	(3,924)
Dividend paid	-	-	-	-	-	-	(5,100)	-	(5,100)
Balance at 31 December 2008	51,000	1,930	1,930	2,199	(504)	5,555	(245)	-	56,310

* This represents movement in available for sale investments through equity which consists of equities, funds and sukuks. The increase is due to increase of market value of certain sukuks (sukuk value cannot exceed par value at any time).

The attached notes 1 to 25 form part of these consolidated financial statements

31 December 2009

1 INCORPORATION AND ACTIVITIES

Liquidity Management Centre B.S.C. (c) (the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 31 July 2002 and registered with Ministry of Industry and Commerce under commercial registration (CR) number 49092. The Bank operates in the Kingdom of Bahrain (Bahrain) under wholesale banking license issued by the Central Bank of Bahrain (CBB). The Bank is engaged in the following activities:

- Facilitate creation of an Islamic inter-bank money market that will allow Islamic Financial Services Institutions ("IFSI") to effectively manage their assets and liabilities.
- Provide short-term liquid, tradable asset backed treasury instruments (Sukuk) based on Islamic Shari'a principles where IFSI can invest their surplus liquidity.
- Provide short-term investment opportunities based on Islamic Shari'a principles.

The activities of the Bank and its wholly owned subsidiary (together the "Group") are to carry out operations in accordance with the teachings of Islam (Shari'a). The Group's Shari'a Supervisory Board is entrusted to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The address of the Bank's registered office is Building 852, Road 3618, Block 436, Seef district,

The Bank operates only in Bahrain. As of 31 December 2009, the total number of employees employed by the Group was 36 (2008: 33).

The consolidated financial statements were approved by the Board of Directors on 17 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 certain available-for-sale investments and trading investments that have been measured at fair value. The consolidated financial statements have been presented in United States Dollars (US Dollar), being the principal currency of the Group's operations. All the values are rounded to the nearest US Dollar thousand unless otherwise stated.

b. Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards and interpretations issued by the Accounting and Auditing Organisation for Islamic 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, the Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, 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 wholly owned subsidiary "The Short Term Sukuk Centre B.S.C. (closed)" (STSC). The financial statements of the subsidiary are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)**c. Basis of consolidation (continued)**

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

	<i>Ownership for 2009</i>	<i>Ownership for 2008</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>
<i>Held directly by the Bank</i>				
The Short Term Sukuk Centre B.S.C. (c)	100%	100%	2003	Bahrain

d. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, balances with banks, murabaha receivables maturing with an original maturity of ninety days or less and due from banks with an original maturity of ninety days or less.

e. Murabaha receivables

Murabaha receivables consist mainly of murabaha and international commodities stated net of deferred profits and provisions for impairment. The Group considers the promise made in the murabaha to the purchase orderer as obligatory.

f. Ijarah receivable

Ijarah receivable is initially recognised at fair value of consideration given and subsequently remeasured at cost less impairment.

g. Mudaraba receivable

Mudaraba receivable is a partnership in which the Group contributes capital. These contracts are stated at the fair value of consideration given less any impairment in value.

h. Financing receivable

The financing receivable represents wakala financing to projects and is initially stated at fair value of consideration given and subsequently remeasured at cost less any impairment in value.

i. Investments

The investments are classified either as trading, available-for-sale or held to maturity.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Trading investments

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.

Available-for-sale investments through equity

Subsequent to initial recognition, these investments are re-measured at fair value with unrealised gains or loss recognised directly in equity in "investment fair value reserve", until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income.

Available-for-sale investments through statement of income

Subsequent to initial recognition, those investments, which are financed by equity and classified as available-for-sale through statement of income, are re-measured at fair value and the resultant gains or losses are included in the consolidated statement of income as "Fair value changes" provided that there are no investment account holders participating in such investments or to the extent of the portion related to owners' equity participating in the investments. Unrealised gains or losses are appropriated to "Investment fair value reserve" in consolidated statement of changes in equity in accordance with interpretation letter issued by AAOIFI. Upon realisation of these gains and losses, these are transferred to retained earnings.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Investments (continued)

Held-to-maturity investments

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. After initial measurement, these 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-

j. Equipment

Equipment is initially recognised at cost. Depreciation is provided on the straight line method on all equipments over their estimated useful life. The estimated useful lives of the equipment for the calculation of depreciation is 3-5 years.

k. Fair value

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the balance sheet date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for any impairment.

l. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

m. Derecognition of financial instruments

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:

- (i) the right to receive cash flows from the asset have expired;
- (ii) 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; or
- (ii) the Group has transferred its rights to receive cash flows from the asset 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 asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Provisions

Provisions are recognised when there is a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

o. Revenue recognition

Income from investments (sukuks, Ijarah receivable and Financing receivable)

Income from investments is recognised on a time-apportioned basis over the period of investment. Income that is 90 days or more overdue is suspended until it is received in cash.

Income from Murabaha receivables

Profit from Murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is suspended until it is received in cash.

Income from Mudaraba

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib. Income related to accounts that are 90 days overdue is suspended until it is received in cash.

Investment Banking Fees

These comprise fee for structuring, arranging and underwriting deals. Structuring and arranging fee income is recognised by reference to percentage of completion method, measured by reference to the percentage of cost incurred to date to estimated total cost. Underwriting and other fees are recognised when earned.

Return to Short Term Sukuk - investors

Return to Short Term Sukuk - investors is recognised in accordance with the underlying contracts.

Dividend

Dividend is recognised when the Group's right to receive the payment is established.

p. 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 US Dollars at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items are included in equity as "foreign exchange translations reserve".

q. Impairment of financial assets

An assessment is made at each balance sheet 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 income statement. Impairment is determined as follows:

- (i) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement.
- (ii) 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.
- (iii) 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 interest rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has used its judgements 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

Management decides on acquisition of an investment whether it should be classified as held to maturity, available-for-sale investments or trading investments.

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 consolidated financial statements.

Impairment of available-for-sale investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Collective impairment provision

Impairment is assessed collectively for losses on investments that are not individually significant and for individually significant investments 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.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowances is then reviewed by credit management to ensure alignment with the Bank's overall policy.

s. Zakah

In accordance with its Articles of Association, the Group is not required to pay Zakah on behalf of its shareholders.

t. Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group.

u. Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated period of service at the balance sheet date. In addition, provision for indemnity is also made for Bahraini employees in accordance with the above guidelines.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)**v. Shari'a Supervisory Board**

The Group's Shari'ah Supervisory Board consists of four members appointed by the general assembly. They review the Group's compliance with general Shari'ah 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'ah principles.

w. Earnings prohibited by Shari'a

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

x. Dividend

Dividend to shareholders is recognised as liability when it is approved by the shareholders.

y. Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the date i.e. the date that the Group commits to purchase or sell such asset.

3 MUDARABA RECEIVABLE

Mudaraba receivable is a short term receivable from a financial institution with an expected profit rate of 3% and matures on 6 January 2010.

4 IJARAH RECEIVABLES

Ijarah receivable from two parties whose terms are as follow:

- 1- US\$ 5 million with a minimum expected profit rate of 8% and maturing on 26 August 2013
- 2- US\$ 5 million with a profit rate of 7% and maturing on 27 July 2014

5 MURABAHA RECEIVABLES

	2009	2008
	US\$ 000	US\$ 000
International commodities Murabaha	-	13,810
Deferred profits	-	3
	<u>-</u>	<u>13,807</u>
	<u><u>-</u></u>	<u><u>13,807</u></u>

The Bank considers the promise made by the purchase orderer in the Murabaha contract as obligatory. The effective profit return for the year ended 31 December 2009 ranged between 0.25% to 0.8% per annum (2008: 1% to 6% per annum).

6 FINANCING RECEIVABLE

This is a syndicated financing transaction based on investment agency (wakala) agreement to finance a project in the Kingdom of Bahrain. The facility is collateralised by an ownership in the underlying companies and guaranteed by a bank incorporated in the Kingdom of Bahrain. The anticipated profit rate of the facility is EIBOR + 2.25% and maturing partly in March 2010 and remaining in March 2011.

31 December 2009

7 INVESTMENTS

	2009	2008
	US\$ 000	US\$ 000
Investments held-to-maturity	187,073	200,519
Available-for-sale investments through statement of income	12,275	12,275
Available-for-sale investments through equity	39,371	35,578
Trading investments	541	93
Impairment provision	(7,864)	(5,867)
Total	231,396	242,598

PROVISIONS	2009			2008		
	<i>Investments held-to-maturity</i>	<i>Available-for-sale investments through equity</i>	<i>Total</i>	<i>Investments held-to-maturity</i>	<i>Available-for-sale investments through equity</i>	<i>Total</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
At 1 January	700	5,167	5,867	-	-	-
Charge for the year	310	1,687	1,997	700	5,167	5,867
At 31 December	1,010	6,854	7,864	700	5,167	5,867

Available-for-sale investments through equity include an amount of US\$ 13.7 million (2008: US\$ 11.6 million) which are considered to be impaired and impairment charge has been taken in accordance with AAOIFI. In total an amount of US\$ 4.4 million (2008: US\$ 10.3 million) of investments in funds held as available for sale through equity have not been fairvalued as their fairvalued could not be reliably estimated.

Investments include an amount of US\$ 201.2 million, net of provision, (2008: US\$ 213.5 million) representing the underlying assets of the secured Short Term Sukuk Program (STS Program) of The Short Term Sukuk Centre B.S.C. (c) managed by the Bank. The maturities of these investments range from 1 to 7 years and the effective profit rate on these investments ranged between 0.5% to 9.5% per annum (2008: 2.3% to 9.5% per annum).

During 2009 the Group entered into a long term financing arrangement with a third party international financial institution for which the Group's investments amounting to US\$ 83 million have been provided as collateral.

8 OTHER ASSETS

	2009	2008
	US\$ 000	US\$ 000
Accrued profit	1,907	2,394
Fee income receivable*	2,873	456
Prepaid expenses	121	44
Others	879	974
	5,780	3,868

* The amount include a fee income receivable of US\$ 2.8 million which is expected to be received during 2010. The Bank has obtained seven parcel of lands in Kuwait as a security for this fee receivable and title to these lands has been transferred to the beneficial interest of the Bank.

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9 DUE TO SHORT TERM SUKUK - INVESTORS

Due to Sukukholders represent STS program Sukuk owned by the investors in the secured Short Term Sukuk Program (STS Program) of The Short Term Sukuk Centre B.S.C. (c) managed by the Bank. The investors are the legal owners of the underlying investments of US\$ 201.2 million (2008: US\$ 213.5 million) of the STS program as disclosed in note 7. Returns paid to the Sukukholders during the year ranged between 0.75% to 5.5% per annum (2008: 1% to 6% per annum).

10 OTHER LIABILITIES

	2009	2008
	US\$ 000	US\$ 000
Staff related payables	1,854	1,466
Others	1,784	666
	3,638	2,132

11 EQUITY**(i) Share capital**

	2009	2008
	US\$ 000	US\$ 000
Authorised:		
200,000,000 ordinary shares of US\$ 1 each	200,000	200,000
Issued, subscribed and fully paid:		
51,000,000 ordinary shares of US\$ 1 each	51,000	51,000

(ii) Statutory reserve

In accordance with the requirements of the Bahrain Commercial Companies Law, 10% of the net profit is transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve total 50% of the paid up share capital. The reserve is not distributable but can be utilised for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and with the prior approval of the CBB.

(iii) General reserve

In accordance with the Bank's articles of association, the Group may transfer any amount, as approved by the directors, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of CBB.

(iv) Investment fair value reserve

Investment fair value reserve represents unrealised gains and losses resulting from re-measurement of available-for-sale investments. This reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition of investments.

12 IJARAH EXPENSE - NET

	2009	2008
	US\$ 000	US\$ 000
Rental income	784	-
Ijarah expense	(1,700)	(49)
	(916)	(49)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 INVESTMENT BANKING FEES

	2009	2008
	US\$ 000	US\$ 000
Sukuk and islamic financing fees and commission income	4,786	823
Others	658	194
	5,444	1,017

14 FAIR VALUE CHANGES

	2009	2008
	US\$ 000	US\$ 000
Gain on available-for-sale investments through statement of income	-	6,213
	-	6,213

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
	US\$ 000	US\$ 000
Directors' remuneration and related expenses (15.1)	196	20
Legal and professional fees	396	208
Advertising and marketing	56	37
Premises expenses	298	144
Others	590	772
	1,536	1,181

15.1 DIRECTORS' REMUNERATION AND RELATED EXPENSES

	2009	2008
	US\$ 000	US\$ 000
Board of Directors' remuneration - 2008	100	-
Board of Directors' meeting related expenses	96	20
	196	20

16 SPECIFIC IMPAIRMENT PROVISION

	2009	2008
	US\$ 000	US\$ 000
Available-for-sale investments through equity - net	1,687	5,167
Impairment provision on receivables	120	460
	1,807	5,627

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17 RELATED PARTY TRANSACTIONS

Related parties comprise shareholders, directors of the Group, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Group. All the financing transactions with related parties are performing and no provisions is required.

The balances of major transactions with related parties as follows:

	Shareholders 2009 US\$ 000	Shareholders 2008 US\$ 000
Cash and balances with banks	459	1,137
Murabaha receivables	-	13,807
Due from banks	18,200	-
Other assets	53	20
Due to Short Term Sukuk - investors	95,096	108,006
Due to banks	72,474	16,794
Other liabilities	916	-

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

	Shareholders 2009 US\$ 000	Shareholders 2008 US\$ 000
Income from Murabaha and		
Due from bank	29	452
Return to Short Term Sukuk - investors	2,526	3,181
Return to banks	996	231
General and administrative expenses	20	238

Key management personnel are those who possess significant decision making and direction setting responsibilities and includes personnel manager level and above. Compensation of these key management personnel, consisting solely of short-term benefits, is as follows:

Short term employee benefits	2,311	1,595
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18 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY

The table below shows an analysis of assets, liabilities and equity analysed according to when they are expected to be recovered or settled.

31 December 2009	<i>Up to 1 month US\$ 000</i>	<i>1 to 3 months US\$ 000</i>	<i>3 to 6 months US\$ 000</i>	<i>6 months to 1 year US\$ 000</i>	<i>1 to 3 years US\$ 000</i>	<i>Over 3 years US\$ 000</i>	<i>No fixed maturity US\$ 000</i>	<i>Total US\$ 000</i>
ASSETS								
Cash and balances with banks	3,676	-	-	-	-	-	-	3,676
Due from banks	23,200	-	-	-	-	-	-	23,200
Mudaraba receivable	8,000	-	-	-	-	-	-	8,000
Ijarah receivables	-	-	-	-	-	10,000	-	10,000
Financing receivable	-	7,500	-	-	7,500	-	-	15,000
Investments	16,640	6,610	17,433	27,141	129,562	28,499	5,511	231,396
Other assets	372	1,076	459	-	-	-	3,873	5,780
Equipment	-	-	-	-	-	-	1,351	1,351
Total assets	51,888	15,186	17,892	27,141	137,062	38,499	10,735	298,403
LIABILITIES AND EQUITY								
Due to Short Term Sukuk - investors	111,053	12,531	-	-	-	-	-	123,584
Due to banks	67,360	13,021	1,654	-	27,170	-	-	109,205
Other liabilities	1,348	77	234	971	-	1,008	-	3,638
Equity	-	-	-	-	-	-	61,976	61,976
Total liabilities and equity	179,761	25,629	1,888	971	27,170	1,008	61,976	298,403
Liquidity gap	(127,873)	(10,443)	16,004	26,170	109,892	37,491	(51,241)	
Cumulative liquidity gap	(127,873)	(138,316)	(122,312)	(96,142)	13,750	51,241	-	

The net funding requirement with respect to cumulative liquidity gap is managed through liquidity lines, amounting to US\$ 115 million as at 31 December 2009, provided by the shareholders (US\$115 million is utilised).

The Group expects that all the short-term liabilities will be rolled over upon maturity. Also, as set out in note 7, the Group has other financing arrangements in place to manage the liquidity gap.

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18 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY (continued)

31 December 2008	<i>Up to 1 month US\$ 000's</i>	<i>1 to 3 months US\$ 000's</i>	<i>3 to 6 months US\$ 000's</i>	<i>6 months to 1 year US\$ 000's</i>	<i>1 to 3 years US\$ 000's</i>	<i>Over 3 years US\$ 000's</i>	<i>No fixed maturity US\$ 000's</i>	<i>Total US\$ 000's</i>
ASSETS								
Cash and balances with banks	1,149	-	-	-	-	-	-	1,149
Due from banks	15,000	-	-	-	-	-	-	15,000
Murabaha receivables	13,807	-	-	-	-	-	-	13,807
Investments	-	981	-	12,778	111,402	115,694	1,743	242,598
Other assets	621	1,137	655	-	-	-	1,455	3,868
Equipment	-	-	-	-	-	-	369	369
Total assets	30,577	2,118	655	12,778	111,402	115,694	3,567	276,791
LIABILITIES AND EQUITY								
Due to Short Term Sukuk - investors	154,744	7,004	-	-	-	-	-	161,748
Due to banks	31,340	11,608	49	-	-	-	-	42,997
Due to non bank	-	13,604	-	-	-	-	-	13,604
Other liabilities	657	553	-	-	-	-	922	2,132
Equity	-	-	-	-	-	-	56,310	56,310
Total liabilities and equity	186,741	32,769	49	-	-	-	57,232	276,791
Liquidity gap	(156,164)	(30,651)	606	12,778	111,402	115,694	(53,665)	
Cumulative liquidity gap	(156,164)	(186,815)	(186,209)	(173,431)	(62,029)	53,665	-	

The net funding requirement with respect to cumulative liquidity gap is managed through a committed liquidity lines, amounting to US\$ 115 million, provided by the shareholders (US\$ 108 million is utilised).

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19 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 to credit risk, liquidity risk and market risk, the latter being divided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however; there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors' is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Board has delegated the oversight responsibilities of risk management to the Risk Management Committee and senior management (comprising the Chief Executive Officer and Senior Managers). They are responsible to carry out the policies laid down by the Board by ensuring that there are adequate and effective operational procedures, internal controls and systems for measuring, monitoring and controlling risks.

Risk Management Committee

In line with the Group's expansion and growth plans, the Board established a Risk Management Committee (RMC) to further strengthen the Group's risk management process. The RMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues, managing and monitoring relevant risk decisions. All the members of this Committee are from the Board. The RMC meets quarterly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Group's range of inter-related risks in an integrated manner. The Committee is supported by the Group's risk management function which assists with the establishment of policies on credit, liquidity, market and operational risk, reviews compliance with and set risk limits approved by the Board and identifies emerging risk issues. The RMC is responsible to provide oversight and management of all risks in the Group and to ensure that there is an ongoing process to continuously manage the Group's risks proactively.

The following are management committees that support the risk management of the Group.

Risk Management Unit

The Risk Management Unit (RMU) is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The RMU is a management committee set up to centralise the management of risks and to assist senior management and the risk committees in the controlling, monitoring and reporting of risks.

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19 RISK MANAGEMENT (continued)

Risk Management Unit (continued)

Asset/liability management committee

The Asset/Liability Management Committee is responsible for the Group's asset and liability management, pricing and funding strategies, management of market and liquidity risks, as well as ensuring that investments are made in accordance with the policies approved by the Board of Directors.

Credit risk committee

The Credit Risk Committee is responsible for the management of credit risk. Overseeing the management of operational risk is the Internal Audit Department which regularly reports to the Audit Committee to provide independent assurance that risks have been identified and there are sufficient and effective controls on all aspects of the Group's operations.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Credit Risk

Credit risk is the risk that any counterparty, to a financial instrument, will fail to fulfill an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure by entering into collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. According to the terms of the STS program, the Sukukholders bear the credit risk arising from investments on account of default. However, the Bank bears the risk of a rating downgrade of its holding in sukuk assets.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral reviews. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a perceived risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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19 RISK MANAGEMENT (continued)**Credit Risk (continued)****Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the Group's financial assets. The maximum exposure is shown gross, before the effect of migration through the use of master netting and collateral agreements.

	Gross maximum exposure 2009 US\$ '000	Gross maximum exposure 2008 US\$ '000
Cash and balances with banks	3,676	1,149
Due from banks	23,200	15,000
Mudaraba receivable	8,000	-
Ijarah receivables	10,000	-
Murabaha receivables	-	13,807
Financing receivable	15,000	-
Investments	205,233	218,250
Other assets	5,606	3,744
Total	270,715	251,950

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 concentrations of assets and liabilities analysed by geographic regions and industry sectors are as below:

	2009		2008	
	Assets US\$ '000	Liabilities US\$ '000	Assets US\$ '000	Liabilities US\$ '000
Geographic region:				
Bahrain	126,182	73,280	83,031	115,176
GCC countries	126,390	95,136	152,331	93,154
Others	18,143	65,290	16,588	10,038
	270,715	233,706	251,950	218,368
Industry sector:				
Banks and financial institutions	59,973	230,318	57,445	201,378
Government	21,593	-	4,896	-
Real estate	142,182	3,353	145,013	3,351
Construction and building materials	26,337	-	26,466	-
Others	20,630	35	18,130	13,639
	270,715	233,706	251,950	218,368

As at 31 December 2009, exposures to banks and non banks which exceed 15% of the Group's consolidated capital base amounted to US\$ 189 million (2008: US\$ 183 million).

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19 RISK MANAGEMENT (continued)**Credit Risk (continued)**

The Group's credit risk are managed due to the nature of its financial assets which are asset backed and/or asset based. It is the Group's policy to maintain consistent perceived risk ratings across the investment portfolio. This facilitates management focus on the applicable risks and the comparison of investment exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. The Group's holdings are perceived to be rated investment grade or

These risk ratings used by the Group are defined as follows:

High investment grade: These borrowers are internally rated between AAA and A-. These are of high credit quality and considered as low risk.

Investment grade: These borrowers are rated internally between BBB+ and BBB-. These are of good credit quality and considered higher risk than the high grade borrowers.

Unrated: These borrowers are not rated internally. They are higher risk than investment grade but full repayments are expected.

Past due or individually impaired: These borrowers are expected to be total loss.

The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

	<i>Neither past due nor impaired</i>			
	<i>High</i>			
	<i>Investment</i>	<i>Investment</i>	<i>Unrated</i>	<i>Total</i>
	<i>grade</i>	<i>grade</i>	<i>2009</i>	<i>2009</i>
	<i>2009</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with banks	1,046	1,778	852	3,676
Due from banks	5,000	18,200	-	23,200
Mudaraba receivable	-	-	8,000	8,000
Ijarah receivable	-	-	10,000	10,000
Murabaha receivables	-	-	-	-
Financing receivable	-	-	15,000	15,000
Investments	111,067	68,463	21,623	201,153
Other assets	617	4,412	577	5,606
	117,730	92,853	56,052	266,635

	<i>Neither past due nor impaired</i>			
	<i>High</i>			
	<i>Investment</i>	<i>Investment</i>	<i>Unrated</i>	<i>Total</i>
	<i>grade</i>	<i>grade</i>	<i>2008</i>	<i>2008</i>
	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with banks	4	1,137	8	1,149
Due from banks	15,000	-	-	15,000
Murabaha receivables	-	13,807	-	13,807
Investments	127,703	61,282	12,961	201,946
Other assets	1,147	1,656	941	3,744
	143,854	77,882	13,910	235,646

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19 RISK MANAGEMENT (continued)**Credit Risk (continued)****Past due but not impaired financial assets**

The following is aging analysis of past due but not impaired assets per class of financial assets:

	<i>Less than 30 days US\$ 000</i>	<i>31 to 60 days US\$ 000</i>	<i>61 to 90 days US\$ 000</i>	<i>More than 91 days US\$ 000</i>	<i>Total US\$ 000</i>
31 December 2009					
Held to maturity	-	-	-	-	-
Other assets	-	-	-	-	-
Total	-	-	-	-	-
31 December 2008					
Held to maturity	1,650	-	-	-	1,650
Other assets	313	73	-	-	386
Total	1,963	73	-	-	2,036

Financial assets whose terms have been renegotiated

The financial asset whose terms were renegotiated during the year amounted to US\$ 11.55 million (2008: nil).

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include charges over real estate properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses.

Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. For STS Program the Bank manages liquidity risk by entering into liquidity support agreements with the shareholders. Also refer note 7 for additional liquidity lines entered into by the Group.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	<i>On demand US\$ 000</i>	<i>Less than 3 months US\$ 000</i>	<i>3 to 12 months US\$ 000</i>	<i>1 to 5 years US\$ 000</i>	<i>Over 5 years US\$ 000</i>	<i>Total US\$ 000</i>
31 December 2009						
Due to Short Term Sukuk - investors	-	123,674	-	-	-	123,674
Due to banks	-	80,475	1,645	27,173	-	109,293
Investment related commitment	580	-	-	-	-	580
Ijara commitment	-	-	5,667	22,668	5,667	34,002
Total undiscounted financial liabilities	580	204,149	7,312	49,841	5,667	267,549

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19 RISK MANAGEMENT (continued)**Liquidity Risk (continued)**

	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000's</i>
<i>31 December 2008</i>						
Due to Short Term						
Sukuk - investors	-	162,047	-	-	-	162,047
Due to banks	-	41,601	1,507	-	-	43,108
Due to non bank	-	13,691	-	-	-	13,691
Investment related						
commitment	1,080	-	-	-	-	1,080
Ijara commitment	-	-	1,892	31,565	6,313	39,770
Total						
financial	1,080	217,339	3,399	31,565	6,313	259,696

Market risk

Market risk is the risk of loss arising from the adverse movement in the level of market prices or rates. The market risk components are foreign exchange risk, profit rate risk and equity risk. The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain.

The Group's principal investments activity focuses on the GCC countries, a region whose dynamics the Group comprehends well and where the Group has a better understanding of the inherent risks. Investments are made after rigorous qualitative and quantitative analysis, and where the desired risk-return objectives are met. A healthy diversification across industry sectors is maintained within the investments.

i. Foreign exchange risk

This risk refers to the adverse exchange rate movements on foreign currency positions taken by the Group. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers United States Dollar as its functional currency. At the balance sheet date, the Group does not have any material assets / liabilities in foreign currencies.

ii. Profit rate risk

Profit rate risk refers to the potential impact on the Group's net income or net income margin of equity caused by unexpected changes in rate of returns. Profit rate risk is mitigated by adopting the floating-profit rate approach through close monitoring of the secondary market trading of bonds and prevailing market expectations on profit rates and yields. The Group's policy is to measure and manage its profit rate sensitivity positions to ensure that the Group's profit rates are optimised and its long-run earning power sustained. The Group reviews the volatility of its assets and liabilities portfolio using appropriate tools and techniques.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities are as follows:

	<i>2009</i>	<i>2008</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Change in rate</i>	<i>Effect on net profit</i>	<i>Effect on net profit</i>
1%	(286)	359
(1%)	286	(359)

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19 RISK MANAGEMENT (continued)**Market risk (continued)**

iii. Equity risk

Equity risk refers to the adverse movements in the price of equities on equity positions. Equity position is marked to the market prices and monitored by the Risk Management Unit and reported to the Risk Management Committee. Risks arising from dealing and investment activities are managed by the establishment of limits that include trading limits, counterparty limits, as well as product and sub-product limits, i.e. permissible acquisition of BBB rated sukuk and above.

Equity price risk arises from the change in fair values of equity investments. The Bank has investments of US\$ 5.5 million (2008: US\$ 1.7 million) whose fair values are determined through

The effect on net income/loss and equity (as a result of a change in the fair value of equity instruments held for trading at 31 December 2009 and 31 December 2008) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices

	<i>Change in equity price</i>	<i>Effect on net income</i>	<i>Effect on equity</i>	<i>Effect on net income</i>	<i>Effect on equity</i>
	<i>%</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
		<i>2009</i>	<i>2009</i>	<i>2008</i>	<i>2008</i>
Dubai International					
Financial Exchange	(20)	(19)	(256)	(19)	(235)
Saudi Stock Exchange (TADAWUL)	(20)	-	(108)	-	(114)
Bahrain Stock Exchange	(20)	(90)	(737)	-	-

The Group has US\$ 4.4 million (2008: US\$ 10.3 million) of investments in funds held as available for sale through equity have not been revalued as their fair value could not be reliably estimated.

Operational Risk

This risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems and external events. In managing this risk, a dedicated team has been established within the Bank to undertake the identification, assessment and measurement, establishing a control framework, monitoring and reporting of operational risks.

20 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.

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS*Financial instruments*

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and balances with bank, murabaha receivables, ijarah receivable, mudaraba receivable, due from banks, financing receivable, investments, a portion of other assets, due to short term sukuk - investors, due to banks, due to non banks and a portion of other liabilities.

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 financial instruments are not significantly different from the carrying value as of 31 December 2009 and 31 December 2008 except for available-for-sale investments amounting to US\$ 4.4 million (2008: US\$ 10.3 million) are carried at cost less impairment due to lack of suitable methods for arriving at a reliable fair value for these investments.

22 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 issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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

	2009 US\$ '000	2008 US\$ '000
Tier 1 Capital	58,140	53,070
Tier 2 Capital	86	-
Total Deductions	-	-
Total Eligible Capital	58,226	53,070

The Bank obtained exemption from the Central Bank of Bahrain for certain large exposures which are otherwise required to be deducted from the total eligible capital for capital adequacy purposes.

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.

Total Credit Risk Weighted Assets	200,024	216,266
Total Market Risk Weighted Assets	1,600	88
Total Operational Risk Weighted Assets	24,459	18,026
Total Regulatory Risk Weighted Assets	226,083	234,380
Capital Adequacy Ratio	25.75%	22.64%

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23 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year there were no earnings realised by the Group from transactions which were not permitted by Shari'a.

24 COMMITMENTS

The Group has the following commitments:

	2009	2008
	US\$ '000	US\$ '000
Investment related commitment	580	1,080
Ijara commitment	26,525	26,525

The Ijara commitment represents Ijara agreement entered with a financial institution for the Group's Headquarter.

25 SOCIAL RESPONSIBILITY

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