Al Salam Bank-Bahrain B.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2008

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Al-Salam Bank-Bahrain BSC ("the Bank") have pleasure in submitting their report on the accompanying financial statements to the shareholders for the year ended 31 December 2008.

The second full year of commercial operations for the year ended 31 December 2008 had been very successful with the Bank's total assets reaching BD554 million (US$1,470 million) and net profit reaching a record of BD25.5 million (US$67.6 million) for 2008. This is your Bank's third profitable fiscal year since its inception in April 2006 despite global financial meltdown from the second half of 2008.

The last quarter of 2008 saw credit and liquidity crunch due to the global financial crisis and fears of a deep recession. However, in spite of extremely adverse market conditions, the Bank managed to post 40% growth in total assets compared to the level at 31 December 2007 and a 10% increase in net income for the year compared to 2007. Whilst business climate was favourable in the first half of 2008, the global financial crisis in the second half of the year prevented business growth and dampened business sentiment and lowered investor confidence.

Due to global and regional economic slowdown, the Bank had been extremely cautious in expanding the financing portfolio and has been booking assets which are less sensitive to downturn. Consistent with this philosophy, investments in ASB China Fund are very well diversified with minority stakes in food, agricultural, industrial and pharmaceutical sectors dominating the portfolio. In addition, hospitality & tourism was our focus in the region with the Bank acquiring leasehold interests in two hotel towers overlooking the El-Haram in Mecca. One of the transactions was structured and majority of the equity interest placed with investors during the last quarter of 2008 despite extremely difficult market conditions.

During the year, the Bank also successfully placed the majority stake in the bio-diesel private equity transaction to its investors. The project is an environmental friendly initiative and aims to produce bio-diesel from multi-feedstock, including grease trap waste, waste cooking oil and palm fatty acids. During the first half of 2008, the Bank raised over US$250 million from investors as equity participation for the light industrial project in Hidd, Bahrain. In this regard the Bank embarked on establishing a tie-up with Emaar Industrial Company, Dubai. The project aims at developing a light industrial park and to complement it, business park, warehousing facilities, commercial and residential layouts have been planned.

In October 2008 the Bank opened a retail branch at the Bahrain City Centre, its second retail branch, in Al-Seef district in furtherance of its retail banking activities in line with the Bank's plan to establish one or two new branches per annum in Bahrain. The customer base of the Bank has expanded commensurate with the market size in Bahrain and the Bank is just a few years away from gaining the critical mass to compete in the market place. To rapidly grow retail banking activities and gain the critical mass required to achieve economies of scale, the Board is also considering non-organic growth, including acquisition of suitable retail operations or financing companies in line with its commitment to establish a large and viable commercial bank amongst Islamic banks in Bahrain. As a demonstration of the Board's commitment to offer un-paralleled client service the Bank expanded its online delivery channel launched on a limited scale in 2007 and rolled out Al-Salam charge card with enhanced security features to protect customers against fraud. We wish to note that the management is after quality and is conscious of being at the cutting edge in its product and service deliveries rather than going after quantity.

On the treasury front, the Bank was extremely successful in growing the financial institution relationship network and managed to draw over BD225 million in interbank lines by end of 30 June 2008. At this date, the Bank was a net lender to the Banking system to the tune of BD165 million due to sustained growth in customer deposits. When the symptoms of financial meltdown were evident, the Bank proactively managed to curtail interbank activity and build healthy liquidity reserves with Central Bank of Bahrain (CBB). This is demonstrated by huge liquid funds and investments in CBB sukuk to the tune of BD111 million or 20% of the total assets at 31 December 2008. We are proud that to date your Bank continues to be a net lender to the banking system.

On the real estate sector front, anticipating strict regulations from CBB, the Bank tightened its investment in and financing to real estate sector, and limited its exposure to 30% of the total assets. Given that there is a huge shortage of dwelling units in Bahrain for the middle class, the Bank is committed to undertaking a role with the support of the Government of Bahrain in developing affordable housing solutions in the coming years. The Board and management are conscious of the need to check the Bank's concentration to the real estate sector and hence new businesses in this sector are being undertaken on a selective basis to take advantage of market opportunities.

The Directors believe that 2009 would be very challenging year for the banking sector as a whole and your Bank would be no exception to these challenges. At the same time, to take advantage of the current attractive asset valuations, the Bank has established onshore investment advisory offices in London and Singapore to source opportunities for our investors. With a strong and growing deposit base and a robust risk management framework, we are confident that your Bank is poised to outperform peers in the medium to long term and establish itself as a model for an universal Islamic bank.

In the Extraordinary General Assembly Meeting held on 10 September 2007, the shareholders resolved to seek cross listing of the Bank's stock on other stock exchanges. Following this, management implemented the resolution and listed the Bank's shares on Dubai Financial Market with effect from 26 March 2008.

Financially, the year 2008 had seen a reasonable growth in net profit from BD23.1 million in 2007 to BD25.5 million in 2008, representing a return on equity of 16.1% (2007: 17.1%). The gross operating income amounted to BD37.6 million (2007: BD32.7 million) and the operating expenses were BD11.8 million (2007: BD9.5 million). The cost-to-income ratio for the year was 31.3% (2007: 28.9%) with the increase attributable to expanding presence in London and Singapore. The earnings per share (EPS) for the year amounted to 21.3 fils (2007: 19.3 fils). The directors have recommended cash dividend of 10 fils per share or 10% of the paid-up capital subject to shareholders' approval in the annual general meeting.

Retained earnings and appropriation of net income:

	BD'000
Balance at beginning of the year	459
Net profit for the year -- 2008	25,543
Transfer to statutory reserve	(2,554)
Transfer from investment reserve	2,050
Zakah	(823)
Charitable contributions	(100)
Proposed dividends	(12,000)
Balance at end of the year	12,575

Directors' and senior management interest:

As required by the Central Bank of Bahrain rulebook set out below are the interests of Directors and Senior Managers in the shares of Al Salam Bank Bahrain B.S.C. and the distribution of the shareholding as of 31 December 2008.

	31/12/2008
Directors' shares	129,582,840
Senior Managers' shares	9,782,879
	139,365,719

Directors remuneration, fees and expenses for attendance at Board meetings for 2008 amounted to BD320,000.

	No. of shares	2008 No. of Shareholders	% of total outstanding shares
Percentage of shares held			
Less than 0.5%	548,096,823	22,810	45.7%
0.5% to less than 1%	168,646,473	19	14.1%
1% up to less than 5%	342,290,441	14	28.5%
Over 5%	140,966,263	1	11.7%
Total	1,200,000,000	22,844	100.0%

The Directors would like to express their appreciation to the leadership and ministries of the Kingdom of Bahrain, the Central Bank of Bahrain, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2009.

24 January 2009
Manama, Kingdom of Bahrain

Mohammed Rashid Alabbar
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-SALAM BANK-BAHRAIN B.S.C.

We have audited the accompanying financial statements of Al-Salam Bank Bahrain B.S.C. ("the Bank"), which comprise the balance sheet as at 31 December 2008 and the statements of income, changes in equity and cash flows for the year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL-SALAM BANK-BAHRAIN B.S.C. (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008 and of its financial performance and its cash flows for the year ended 31 December 2008 in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008 and of its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these 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 2008 that might have had a material adverse effect on the business of the Bank or on its financial position, and that the Bank has complied with the terms of its banking licence.

Ernst + Young

24 January 2009
Manama, Kingdom of Bahrain

BALANCE SHEET

31 December 2008

	Note	*31 December 2008 BD*	*31 December 2007 BD*
ASSETS			
Cash and balances with Central Bank of Bahrain	4	**83,533,981**	15,173,663
Central Bank of Bahrain Sukuk		**31,095,000**	20,380,000
Murabaha with banks	5	**87,167,449**	224,450,893
Murabaha financing		**72,483,745**	32,641,599
Ijarah Muntahia Bittamleek	6	**41,530,784**	10,435,863
Non-trading investments	7	**116,929,500**	62,735,696
Investment in an associate	8	**8,011,913**	8,193,142
Investment properties		**1,177,528**	1,177,528
Receivables and prepayments	9	**21,032,829**	10,505,046
Premises and equipment		**2,583,796**	2,979,252
Assets held-for-sale		**88,934,033**	9,024,000
TOTAL ASSETS		**554,480,558**	397,696,682
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Murabaha from banks		**32,880,685**	96,983,041
Murabaha from non-banks		**289,004,770**	106,908,709
Customers' current accounts		**3,231,303**	5,688,686
Other liabilities	10	**10,755,559**	8,875,784
Total liabilities, excluding unrestricted investment accounts		**335,872,317**	218,456,220
UNRESTRICTED INVESTMENT ACCOUNTS	11	**46,124,760**	19,769,585
Total liabilities, including unrestricted investment accounts		**381,997,077**	238,225,805
EQUITY			
Share capital	12	**120,000,000**	120,000,000
Reserves and retained earnings	12	**39,660,956**	38,941,790
Proposed appropriations	12	**12,822,525**	529,087
		172,483,481	159,470,877
TOTAL LIABILITIES, UNRESTRICTED INVESTMENTS ACCOUNTS AND EQUITY		**554,480,558**	397,696,682

These financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 24 January 2009.

Mohamed Ali Rashid Alabbar	Hussein Mohammed Al Meeza	Yousif Taqi
Chairman	Vice Chariman	Director & Chief Executive Officer

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF INCOME

Year ended 31 December 2008

	31 December 2008 BD	*31 December 2007 BD*
Income from financing contracts	**11,763,159**	11,429,773
Gain on disposal of assets held-for-sale	**30,266,556**	11,017,492
Gains on investments designated as fair value through profit or loss	**5,259,691**	11,079,352
Other operating income (Note 13)	**2,300,596**	4,950,608
Total operating income	**49,590,002**	38,477,225
Less: Profit on unrestricted investment accounts	**(219,939)**	(245,414)
Less: Profit on Murabaha contracts	**(11,768,805)**	(5,519,638)
Net operating income	**37,601,258**	32,712,173
Staff costs	**6,854,616**	5,312,083
Premises and equipment cost	**582,745**	423,905
Depreciation	**902,526**	745,138
Other operating expenses	**3,438,451**	2,981,195
	11,778,338	9,462,321
OPERATING PROFIT	**25,822,920**	23,249,852
Share of loss from an associate (Note 8)	**(280,239)**	(100,858)
NET PROFIT FOR THE YEAR	**25,542,681**	23,148,994
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (NOTE 12)	**1,200,000,000**	1,199,935,900
BASIC EARNINGS PER SHARE (FILS)	**21.3**	19.3

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2008

	31 December 2008 BD	*31 December 2007 BD*
OPERATING ACTIVITIES		
Net profit for the year	**25,542,681**	23,148,994
Adjustments:		
Depreciation	**902,526**	745,138
Share of loss from an associate	**280,239**	100,858
Unrealised losses (gains) on investments designated as fair value through profit or loss	**2,050,309**	(11,079,352)
Operating income before changes in operating assets and liabilities	**28,775,755**	12,915,638
Changes in operating assets and liabilties:		
Mandatory reserve with Central Bank of Bahrain	**(7,241,000)**	(4,710,000)
Central Bank of Bahrain Sukuk	**(10,715,000)**	(20,380,000)
Murabaha and Mudaraba with Banks with original maturities of 90 days or more	**(1,240,065)**	14,439,734
Murabaha financing	**(39,842,146)**	(9,678,332)
Ijarah Muntahia Bittamleek	**(31,094,920)**	(53,434)
Non-trading investments, net	**(56,244,113)**	(10,215,813)
Receivables and prepayments	**(10,527,784)**	(1,720,592)
Customers' current accounts	**(2,457,383)**	14,874
Murabaha from banks	**(64,102,356)**	73,335,736
Murabaha from non-banks	**182,096,061**	86,796,742
Other liabilities	**1,250,688**	6,630,779
Assets held-for-sale	**(79,910,033)**	(17,845,885)
Net cash (used in) from operating activities	**(91,252,296)**	129,529,447
INVESTING ACTIVITIES		
Investment in an associate	-	(6,299,358)
Purchase of premises and equipment	**(507,070)**	(1,697,506)
Net cash (used in) investing activities	**(507,070)**	(7,996,864)
FINANCING ACTIVITIES		
Proceeds from sale of treasury stock	-	20,294
Unrestricted investment accounts	**26,355,176**	19,769,585
Dividends	**(12,000,000)**	-
Net cash from financing activities	**14,355,176**	19,789,879
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(77,404,190)**	141,322,462
Cash and cash equivalents at 1 January	**233,608,190**	92,285,728
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**156,204,000**	233,608,190
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**67,263,285**	1,814,814
Balances with other banks	**3,389,696**	7,718,849
Murabaha with banks with original maturities of less than 90 days	**85,551,019**	224,074,527
	156,204,000	233,608,190

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Share capital BD	*Treasury stock BD*	*Statutory reserve BD*	*Retained earnings BD*	*Investment reserve BD*	*Foreign exchange translation reserve BD*	*Proposed appropriations BD*	*Total equity BD*
Balance as of 1 January 2008	**120,000,000**	-	**3,959,869**	**12,458,881**	**22,523,040**	-	**529,087**	**159,470,877**
Zakah on 2008 earnings	-	-	-	(822,525)	-	-	-	(822,525)
Charitable donations	-	-	-	(100,000)	-	-	-	(100,000)
Changes on investment in an associate	-	-	-	-	-	99,010	-	99,010
(Expenses) income recognised directly in equity	-	-	-	(922,525)	-	99,010	-	(823,515)
Net profit for the year	-	-	-	25,542,681	-	-	-	25,542,681
	-	-	-	**24,620,156**	-	**99,010**	-	**24,719,166**
Transfer from investment reserve	-	-	-	2,050,309	(2,050,309)	-	-	-
Transfer to statutory reserve	-	-	2,554,268	(2,554,268)	-	-	-	-
Zakah paid	-	-	-	-	-	-	(529,087)	(529,087)
Zakah contribution	-	-	-	-	-	-	822,525	822,525
Dividends paid for 2007	-	-	-	(12,000,000)	-	-	-	(12,000,000)
Proposed dividends for 2008	-	-	-	(12,000,000)	-	-	12,000,000	-
	-	-	**2,554,268**	**116,197**	**(2,050,309)**	**99,010**	**12,293,438**	**13,012,604**
Balance at 31 December 2008	**120,000,000**	-	**6,514,137**	**12,575,078**	**20,472,731**	**99,010**	**12,822,525**	**172,483,481**
Balance as of 1 January 2007	120,000,000	(17,203)	1,641,879	3,333,225	11,443,688	-	-	136,401,589
Zakah on 2007 earnings	-	-	-	(529,087)	-	-	-	(529,087)
Charitable donations	-	-	-	(100,000)	-	-	-	(100,000)
Expenses recognised directly in equity	-	-	-	(629,087)	-	-	-	(629,087)
Net profit for the year	-	-	-	23,148,994	-	-	-	23,148,994
	-	-	-	22,519,907	-	-	-	22,519,907
Transfer to investment reserve	-	-	-	(11,079,352)	11,079,352	-	-	-
Transfer to statutory reserve	-	-	2,314,899	(2,314,899)	-	-	-	-
Zakah contribution	-	-	-	-	-	-	529,087	529,087
Sale of treasury stock	-	17,203	3,091	-	-	-	-	20,294
	-	17,203	2,317,990	9,125,656	11,079,352	-	529,087	23,069,288
Balance at 31 December 2007	120,000,000	-	3,959,869	12,458,881	22,523,040	-	529,087	159,470,877

The attached notes 1 to 28 form part of these financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al-Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain (CBB) and has a retail Islamic banking licence and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

The Bank operates through its registered office, two retail branches in Al-Seef district and its investment advisory offices in London and Singapore. The Bank has a 20% stake in Al-Salam Bank Algeria, a commercial bank incorporated in Algeria with a paid up capital of US$ 100 million equivalent in local currency.

The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include accepting money placements/deposits, managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss and investment properties that have been measured at fair value. These financial statements incorporate all assets, liabilities and off balance financial instruments held by the Bank, and its investment advisory offices. Investment in Al Salam Bank-Algeria is equity accounted as per IAS 28, Investment in Associates (Note 8).

These financial statements are presented in Bahraini dinars, being the functional and presentation currency of the Bank.

Statement of compliance

The financial statements of the Bank are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law and International Financial Reporting Standards issued by International Accounting Standards Board and the Central Bank of Bahrain and Financial Institutions Law.

Future changes in accounting policies

IFRS 8 Operating Segments

The application of IFRS 8 which will be effective for the year ending 31 December 2009 will result in amended and additional disclosures relating to operating segments.

IAS 1 Presentation of Financial Statements (Revised)

The application of IAS 1 (Revised) which will be effective for the year ending 31 December 2009 will result in amendments to the presentation of the financial statements.

The implementation of these standards will not have any significant impact on the Bank's financial statements.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Judgements are made in the classification of fair value through profit or loss, assets held for sale or held-to-maturity investments based on management's intention at acquisition of the financial asset. As fully described below, judgements are also made in determination of the objective evidence that a financial asset is impaired.

Classification of investments
Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

Impairment of available-for-sale equity investments
The Bank 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. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimating uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on financial contracts
The Bank reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financial contracts
In addition to specific provisions against individually significant financial contracts the Bank also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Bank, of the financial contract since it was granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

The principal accounting policies applied in the preparation of these financial statements are set out below:

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Financial contracts
Financial contracts consist of cash and balances with banks and the Central Bank of Bahrain, Murabaha receivables (net of deferred profit), Mudaraba and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

Murabaha receivables
Murabaha receivables are stated net of provision for impairment and deferred profits.

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek assets comprises assets under lease, comprising aircraft, land and buildings, under terms that would transfer ownership of the assets to third parties at the end of the respective lease period.

Depreciation is provided on a straight-line basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the period of the lease.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Non-trading investments
These are classified as held-to-maturity, available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit and loss is charged to statement of income.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

Investments held-to-maturity
Investments which have fixed or determinable payments and fixed maturity which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value.

Investments available-for-sale
After initial recognition, investments which are classified "available-for-sale" are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. 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 as "cumulative changes in fair value" within equity, is included in the statement of income for the year.

Investments carried at fair value through profit or loss
Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Bank's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates. In accordance with AAOIFI, such investments would classify as "available for sale investments".

Investments at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded as "Gains on investments designated at fair value through profit or loss" in the statement of income.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates
The Bank's investments in its associates are accounted for under the equity method of accounting. An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the Bank's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Bank are identical and the associates accounting policy conform to those used by the Bank for like transactions and events in similar transactions.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Bank determines at each balance sheet date whether there is any objective evidence that the investment in associates are impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

Profit and losses resulting from transactions between the Bank and the associates are eliminated to the extent of the interest in associates.

Investment properties
Investment properties are those held to earn rentals and/or for capital appreciation. These are initially recorded at cost, including acquisition charges associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the statement of income as gain or loss in investment properties. The fair value of the investment properties is determined either based on valuations made by independent valuers or using internal models with consistent assumptions.

Investment reserve
Unrealised gains resulting from revaluation of "investments carried at fair value through profit or loss" and "investment properties" recorded in the statement of income are appropriated to an investment revaluation reserve in equity and are not available for distribution to the shareholders. Upon disposal of such assets, the related cumulative gains are transferred to retained earnings and become available for distribution.

Subsidiaries or associates acquired with a view to sell
A subsidiary or an associate acquired with a view to subsequent disposal within 12 months are classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the balance sheet as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

Any impairment loss is recognised in the statement of income for any initial and subsequent write down of these assets to fair value, less costs to sell. A gain for any subsequent increase in the fair value, less costs to sell, is recognised to the extent that it is not in excess of the cumulative impairment loss that was recognised.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment
Premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware and software	3 to 5 years
- Furniture and office equipments	3 to 5 years
- Motor vehicle	5 years
- Leasehold Improvements	Over the lease period

Impairment and uncollectability 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 statement of income.

Impairment is determined as follows:
(a) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

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

In addition, a collective provision is made to cover impairment for specific banks of assets where there is a measurable decrease in estimated future cash flows.

Offsetting
Financial assets and financial liabilities can only be offset with the net amount being reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or intends to realise the asset and settle the liability simultaneously.

Employees' end of service benefits
The Bank provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For national employees, the Bank makes contributions to General Organisation for Social Insurance calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Revenue recognition

Murabaha
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. Accrual of income is suspended when the Bank believes that the recovery of these amounts may be doubtful or normally when the repayments are overdue by 90 days, whichever is earlier.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Mudaraba
Income on Mudaraba transactions are recognised when the right to receive is established or these are declared by the Mudarib, whichever is earlier.

Dividends
Revenue is recognised when the Bank's right to receive the payment is established.

Ijarah
Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term.

Fees and commission income
The Bank earns fee and commission income from a diverse range of services it provides its customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions include up-front fees and early maturity fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned relating to underlying transaction or on a time proportionate basis when the fee is linked to time.

Fair value of financial assets
For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to 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 Bank at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments fair value is based on the net present value of estimated future cash flows determined by the Bank using current profit rates for investments with similar terms and risk characteristics.

Foreign currencies
Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the statement of income. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "available-for-sale" are included in equity until the related assets are sold or derecognised at which time they are recognised in the statement of income. Translation gains on assets and liabilities classified as "fair value through profit or loss" are directly recognised in the statement of income.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

Derecognition of financial assets
A financial asset (in whole or part) is derecognised either when the Bank has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

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

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the balance sheet date are included in the equity and are disclosed as an event after the balance sheet date.

Unrestricted investment account holders (URIA)
All unrestricted investment accounts are carried at cost plus accrued profits less amounts repaid. Income to unrestricted investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances.

Zakah
In accordance with the Articles of Association, the Bank is required to pay Zakah on all realised retained earnings and reserves on behalf of the shareholders, excluding paid-up capital and share premium which are the responsibility of the shareholders. The Bank is obligated to calculate and notify individual shareholders of their share of Zakah payable. The Bank's Shari'a Supervisory Board approves these calculations. Zakah is treated as an appropriation from the retained earnings.

Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with banks with maturities of less than 90 days from the date of acquisition.

3 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2008, financial instruments have been classified for the purpose of measurement under International Accounting Standard 39: Financial Instruments: Recognition and Measurement as follows:

	Financial assets at fair value through profit or loss	*Financial assets at cost/ amortised cost*	*Financial liabilities at cost/ amortised cost*	*Total*
	BD	*BD*	*BD*	*BD*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	83,533,981	-	83,533,981
Central Bank of Bahrain Sukuk	-	31,095,000	-	31,095,000
Murabaha with banks	-	87,167,449	-	87,167,449
Murabaha financing	-	72,483,745	-	72,483,745
Ijarah Muntahia Bittamleek	-	41,530,784	-	41,530,784
Non-trading investments	116,929,500	-	-	116,929,500
Receivables	-	20,439,688	-	20,439,688
Assets held-for-sale	-	88,934,033	-	88,934,033
	116,929,500	425,184,680	-	542,114,180
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS				
Murabaha from banks	-	-	32,880,685	32,880,685
Murabaha from non-banks	-	-	289,004,770	289,004,770
Customers' current accounts	-	-	3,231,303	3,231,303
UNRESTRICTED INVESTMENT ACCOUNTS	-	-	46,124,760	46,124,760
	-	-	371,241,518	371,241,518

3 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (continued)

As at 31 December 2007, financial instruments were classified as follows:

	Financial assets at fair value through profit or loss BD	*Financial assets at cost/ amortised cost BD*	*Financial liabilities at cost/ amortised cost BD*	*Total BD*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	15,173,663	-	15,173,663
Central Bank of Bahrain Sukuk	-	20,380,000	-	20,380,000
Murabaha with banks	-	224,450,893	-	224,450,893
Murabaha financing	-	32,641,599	-	32,641,599
Ijarah Muntahia Bittamleek	-	10,435,863	-	10,435,863
Non-trading investments	62,735,696	-	-	62,735,696
Receivables	-	10,156,438	-	10,156,438
Assets held-for-sale	-	9,024,000	-	9,024,000
	62,735,696	322,262,456	-	384,998,152
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS				
Murabaha from banks	-	-	96,983,041	96,983,041
Murabaha from non-banks	-	-	106,908,709	106,908,709
Customers' current accounts	-	-	5,688,686	5,688,686
UNRESTRICTED INVESTMENT ACCOUNTS	-	-	19,769,585	19,769,585
	-	-	229,350,021	229,350,021

4 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2008 BD	*2007 BD*
Mandatory reserve with Central Bank of Bahrain	**12,881,000**	5,640,000
Cash and other balances with Central Bank of Bahrain	**67,263,285**	1,814,814
Balances with other banks	**3,389,696**	7,718,849
	83,533,981	15,173,663

5 MURABAHA WITH BANKS

	31 December 2008		
	Up to 3 months BD	***3 months to 6 months BD***	***Total BD***
GCC	**82,376,388**	**-**	**82,376,388**
Europe	**4,791,061**	**-**	**4,791,061**
	87,167,449	**-**	**87,167,449**

5 MURABAHA WITH BANKS (continued)

	31 December 2007		
	Up to 3 months BD	*3 months to 6 months BD*	*Total BD*
GCC	199,822,903	376,366	200,199,269
Europe	24,251,624	-	24,251,624
	224,074,527	376,366	224,450,893

6 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

	2008 BD	*2007 BD*
Movement in Ijarah Muntahia Bittamleek assets is as follows:		
At 1 January	**10,435,863**	10,382,429
Additions during the year	**33,418,897**	1,193,780
Ijarah assets' depreciation - net	**(2,323,976)**	(1,140,346)
At 31 December	**41,530,784**	10,435,863

	2008 BD	*2007 BD*
The future minimum lease receivable payments in aggregate are as follows:		
Due within one year	**9,915,774**	738,954
Due in one to five years	**26,505,879**	8,561,766
Due after five years	**5,109,131**	1,135,143
	41,530,784	10,435,863

	2008 BD	*2007 BD*
Ijarah Muntahia Bittamleek are divided into the following asset classes:		
Aviation	**3,836,702**	4,307,337
Land and buildings	**37,694,082**	6,128,526
	41,530,784	10,435,863

Income recognised on Ijarah assets, included under income from financing contracts, during the year amounted to BD 1,605,266 (2007: BD 905,497). The accumulated depreciation on assets subject to Ijarah amounted to BD 3,464,322 (31 December 2007: BD 1,140,346).

7 NON-TRADING INVESTMENTS

	2008 BD	*2007 BD*
Quoted	**4,045,637**	11,403,476
Unquoted based on valuation techniques:		
- Market observable input	**97,509,445**	35,027,745
- Non-market observable input	**15,374,418**	16,304,475
	116,929,500	62,735,696

These represent investments designated as fair value through profit or loss and are carried at fair value.

Certain of these investments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the Bank's best estimate of the most appropriate model inputs.

8 INVESTMENT IN AN ASSOCIATE

During 2007 the Bank had acquired a 20% stake in Al Salam Bank Algeria (ASBA), a bank incorporated in Algeria. Al Salam Bank Algeria is not listed on any stock exchange. The following table illustrates the summarised financial information of the Bank's investment in ASBA:

	2008 BD	*2007 BD*
Associate's balance sheet:		
Total assets	**39,514,495**	41,395,705
Total liabilities	**3,224,932**	1,593,828
Net assets	**36,289,563**	39,801,877
Total revenue	**9,090**	-
Total expenses	**1,410,287**	504,290
Net loss for the year	**1,401,197**	504,290
Bank's share of associate's loss:	**280,239**	100,858

9 RECEIVABLES AND PREPAYMENTS

	2008 BD	*2007 BD*
Profit receivable on Murabaha financing	**611,123**	670,766
Profit receivable on Ijarah assets	**278,838**	205,689
Profit receivable on Sukuk	**323,905**	351,123
Prepayments	**593,141**	348,608
Other receivables	**19,225,822**	8,928,860
	21,032,829	10,505,046

Other receivables include subscription receivables of BD 8,515,761 relating to sale of certain held-for-sale assets. At 31 December 2007, other receivables included advances of BD 4,154,051 for acquisition of investments.

10 OTHER LIABILITIES

	2008 *BD*	*2007* *BD*
Profit payable	**2,614,170**	1,176,903
Accounts payable and accruals	**8,024,884**	7,561,307
End of service benefits	**116,505**	137,574
	10,755,559	8,875,784

11 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment account holders' funds are commingled with the Bank's funds and invested in short-term highly liquid Commodity Murabaha financing with banks. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. Unrestricted investment accounts have no restriction on cash withdrawal. The Mudarib fee ranges between 40% and 50%.

12 EQUITY

12.1 SHARE CAPITAL

	2008 *BD*	*2007* *BD*
Authorised:		
1,200,000,000 ordinary shares of BD 0.100 each	**120,000,000**	120,000,000
Issued and fully paid:		
1,200,000,000 ordinary shares of BD 0.100 each, issued against cash	**120,000,000**	120,000,000

12.2 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

12.3 INVESTMENT RESERVE

During the year BD 2,050,309 was transferred from the investment reserve to retained earnings (2007: gains of BD 11,079,352 were transferred from retained earnings to the investment reserve). The reserve represents unrealised gains and losses from revaluation of investments and investment properties carried at fair value though profit or loss, and is not available for distribution under the Bank's Shari'a policies until transferred back to retained earnings upon disposal of the assets and realisation of the gains.

12.4 PROPOSED APPROPRIATIONS

The Board of Directors in its meeting on 24 January 2009 has resolved to recommend a dividend of 10 fils per share or 10% of the paid-up capital. For Zakah appropriations, see Note 26.

13 OTHER OPERATING INCOME

	2008	*2007*
	BD	*BD*
Financing related fees and commissions	**843,708**	530,937
Transaction related fees	**367,334**	3,853,532
Fiduciary and other fees	**840,504**	311,875
Foreign exchange gains	**249,050**	254,264
	2,300,596	4,950,608

14 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, 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 Bank. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 31 December 2008 were as follows:

	2008			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD	*BD*	*BD*	*BD*
Assets:				
Murabaha financing	**7,040,472**	**3,693,308**	**60,985**	**10,794,765**
Ijarah Muntahia Bittamleek	**12,556,290**	**6,301,531**	**179,595**	**19,037,416**
Receivables and prepayments	**8,669,913**	**91,225**	**14,583**	**8,775,721**
Liabilities:				
Murabaha from non-banks	**26,966,966**	**141,577**	**1,031,541**	**28,140,084**
Customer current accounts	**-**	**180,255**	**49,004**	**229,259**
Unrestricted investment accounts	**3,242,180**	**100,680**	**44,142**	**3,387,002**

The income and expenses in respect of related parties included in the financial statements are as follows:

Income:				
Income from other Islamic financing contracts	**605,768**	**419,558**	**15,731**	**1,041,057**
Fees and commission income (Note 13)	**40,905**	**-**	**-**	**40,905**
Expenses:				
Profit paid on Murabaha from non-banks	**966,272**	**3,828**	**29,269**	**999,369**
Share of profits on unrestricted investment accounts	**-**	**192**	**4,879**	**5,071**

14 RELATED PARTY TRANSACTIONS (continued)

	2007			
	Associates and joint ventures	*Directors and related entities*	*Senior management*	*Total*
	BD	*BD*	*BD*	*BD*
Assets:				
Murabaha financing	-	4,603,987	45,896	4,649,883
Ijarah Muntahia Bittamleek	-	6,807,337	253,129	7,060,466
Receivables and prepayments	600	196,325	1,275	198,200
Liabilities:				
Murabaha from non-banks	1,453,500	568,410	576,490	2,598,400
Customer current accounts	-	164,027	21,767	185,794
Unrestricted investment accounts	-	50,315	608,454	658,769

The income and expenses in respect of related parties included in the financial statements are as follows:

Income:				
Income from other Islamic financing contracts	-	929,514	10,305	939,819
Fees and commission income (Note 13)	-	19,250	938	20,188
Expenses:				
Profit paid on Murabaha from non-banks	165,372	42,062	26,002	233,436
Share of profits on unrestricted investment accounts	-	39	1,082	1,121

As of 31 December 2008, Murabaha financing and Ijarah Muntahia Bittamleek included BD 3,693,309 (2007: 4,603,987) of facilities provided to directors and their associates which are past due and on which profit is not being accrued. No provisions have been made against these facilities since sufficient collaterals, including cash collateral, are held.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration, allowances and expenses for attending board and committee meetings for the year ended 31 December 2008 amounted to BD 350,000 (31 December 2007: BD 370,000).

Compensation of key management personnel, consisting solely of short-term benefits, paid during the year was BD 2,753,000 (2007: BD 2,329,980).

15 COMMITMENTS

Undrawn financing commitments

The Bank has a contracted commitment to the extent of BD 2,434,840 (2007: BD 6,409,746) which remained undrawn as at the year end. In addition, the Bank had an undrawn capital commitment of BD 5,027,488 (2007: BD 32,601,265) as at the year end on account of investments. Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

15 COMMITMENTS (continued)

Operating lease commitment - Bank as lessee
The Bank has entered into a five-year operating lease for its headquarters premises. Future minimal rentals payable under the non-cancellable lease as at 31 December 2008 are as follows:

	2008	*2007*
	BD	*BD*
Within 1 year	**451,095**	366,373
After one year but not more than five years	**448,371**	821,980
TOTAL	**899,466**	1,188,353

16 RISK MANAGEMENT

16.1 Introduction

Risk is inherent in the Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to prepayment risk and operational 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 Bank'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.

Executive Committee
The Executive Committee has the responsibility to monitor the overall risk process within the Bank.

Shari'a Supervisory Board
The Bank's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

Credit/ Risk Committee
Credit/ Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.

Asset and Liability Committee
The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Bank's balance sheet in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's balance sheet both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

16 RISK MANAGEMENT (continued)

16.1 Introduction (continued)

Board Audit Committee
The Audit Committee is appointed by the Board of Directors and consists of three members who are Directors, including one non-Executive Director. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit
Risk management processes throughout the Bank are audited by the internal audit function, that examines both the adequacy of the procedures and the Bank'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
The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the General Manager and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration
Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

16 RISK MANAGEMENT (continued)

16.2 CREDIT RISK (continued)

Risk management

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. The Bank attempts to controls credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Bank manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

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 components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	***Gross maximum exposure* 2008 *BD***	***Net maximum exposure* 2008 *BD***	*Gross maximum exposure 2007 BD*	*Net maximum exposure 2007 BD*
ASSETS					
Cash and balances with banks		**3,389,696**	**3,389,696**	7,718,849	7,718,849
Murabaha with banks	5	**87,167,449**	**87,167,449**	224,450,893	224,450,893
Murabaha financing		**52,058,745**	**32,542,273**	31,141,599	6,913,987
Ijarah Muntahia Bittamleek	6	**37,688,214**	**14,163,658**	10,435,863	-
Non-trading investments	7	**116,929,500**	**95,261,108**	62,735,696	62,735,696
Receivables	9	**20,115,783**	**20,115,783**	9,865,191	9,865,191
Assets held-for-sale		**88,934,033**	**39,715,428**	9,024,000	9,024,000
Total		**406,283,420**	**292,355,395**	355,372,091	320,708,616
Commitments		**7,462,328**	**6,401,007**	11,437,234	6,777,488
Total credit risk exposure		**413,745,748**	**298,756,402**	366,809,325	327,486,104

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

16 RISK MANAGEMENT (continued)

16.2 CREDIT RISK (continued)

Type of credit risk

Various contracts entered into by the Bank comprise Murabaha receivables, Mudaraba investments and Ijarah Muntahia Bittamleek contracts. Murabaha receivables contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba investments consist of financing transactions entered through other Islamic banks and financial institutions. The various financial instruments are:

Murabaha receivables

The Bank arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is repaid in installments over the agreed period.

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah installments are settled and the lessee purchases the asset.

a) The credit quality of Murabaha with banks subject to credit risk is as follows:

	31 December 2008				
	Neither past due nor impaired			***Past due or individually impaired***	
	'A' Rated	***'B' Rated***	***Unrated***		***Total***
	BD	***BD***	***BD***	***BD***	***BD***
Murabaha with banks	**60,638,666**	**7,540,000**	**18,988,783**	**-**	**87,167,449**
	60,638,666	**7,540,000**	**18,988,783**	**-**	**87,167,449**

	31 December 2007				
	Neither past due nor impaired			*Past due or individually impaired*	
	'A' Rated	*'B' Rated*	*Unrated*		*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Murabaha with banks	135,572,893	51,822,000	37,056,000	-	224,450,893
	135,572,893	51,822,000	37,056,000	-	224,450,893

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence).

16 RISK MANAGEMENT (continued)

16.2 CREDIT RISK (continued)

b) The credit quality of Murabaha financing and Ijarah Muntahia Bittamleek subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2008				
	Neither past due nor impaired				
	Satisfactory	***Watch list***	***Substandard but not impaired***	***Past due***	***Total***
	BD	***BD***	***BD***	***BD***	***BD***
Murabaha financing	**66,756,279**	**-**	**-**	**5,727,466**	**72,483,745**
Ijarah Muntahia Bittamleek	**41,507,924**	**-**	**-**	**22,860**	**41,530,784**
	108,264,203	**-**	**-**	**5,750,326**	**114,014,529**

	31 December 2007				
	Neither past due nor impaired				
	Satisfactory	*Watch list*	*Substandard but not impaired*	*Past due*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Murabaha financing	27,040,226	-	-	5,601,373	32,641,599
Ijarah Muntahia Bittamleek	10,429,788	-	-	6,075	10,435,863
	37,470,014	-	-	5,607,448	43,077,462

All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

c) Past due but not impaired Murabaha financing, and Ijarah Muntahia Bittamleek are analysed as follows:

	31 December 2008			
	0-30 days	***30-90 days***	***> 90 days***	***Total***
	BD	***BD***	***BD***	***BD***
Murabaha financing	**-**	**2,034,158**	**3,693,308**	**5,727,466**
Ijarah Muntahia Bittamleek	**22,860**	**-**	**-**	**22,860**
	22,860	**2,034,158**	**3,693,308**	**5,750,326**

	31 December 2007			
	0-30 days	*30-90 days*	*> 90 days*	*Total*
	BD	*BD*	*BD*	*BD*
Murabaha financing	997,380	3,480,396	1,123,597	5,601,373
Ijarah Muntahia Bittamleek	252	-	5,823	6,075
	997,632	3,480,396	1,129,420	5,607,448

16 RISK MANAGEMENT (continued)

16.2 CREDIT RISK (continued)

All the past due but not impaired Murabaha and Ijarah financing are covered by collateral of BD 8,901,056 (2007: BD 1,717,930), including cash collateral of BD 3,292,000. In addition, the Bank is holding sovereign guarantee of BD 1,877,944 in respect of one of the facilities.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the balance sheet plus commitments to customers disclosed in note 15 except capital committments.

During the year BD 2,350,000 of financing facilities to individuals were renegotiated. All renegotiated facilities are performing and are fully secured.

At 31 December 2008, the amount of credit exposure in excess of 10% of the equity to individual counterparties was nil (2007: nil).

17 CONCENTRATIONS

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The Bank manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and unrestricted investment accounts by geographic region and industry sector was as follows:

	Assets	*Liabilities, unrestricted investment accounts and equity*	*Commitments*	*Assets*	*Liabilities, unrestricted investment accounts and equity*	*Commitments*
	2008	*2008*	*2008*	*2007*	*2007*	*2007*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Geographic region						
GCC	**502,539,276**	**357,555,010**	**2,465,607**	355,982,172	223,511,805	6,409,746
Arab World	**9,917,696**	**4,978,221**	**-**	10,122,930	4,199,469	-
Europe	**6,106,964**	**6,856,091**	**-**	27,161,365	9,930,884	-
Asia/Pacific	**32,222,098**	**12,600,551**	**2,278,578**	3,570,847	576,258	26,344,625
America	**1,709,064**	**7,204**	**-**	779,299	7,389	-
Others	**1,985,460**	**-**	**2,718,143**	80,069	-	6,256,640
	554,480,558	**381,997,077**	**7,462,328**	397,696,682	238,225,805	39,011,011
Equity	**-**	**172,483,481**	**-**	-	159,470,877	-
	554,480,558	**554,480,558**	**7,462,328**	397,696,682	397,696,682	39,011,011

17 CONCENTRATIONS (continued)

	Assets	*Liabilities, unrestricted investment accounts and equity*	*Commitments*	*Assets*	*Liabilities, unrestricted investment accounts and equity*	*Commitments*
	2008	*2008*	*2008*	*2007*	*2007*	*2007*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Industry sector						
Trading and manufacturing	**12,752,030**	**423,602**	**48,789**	5,217,109	71,317	1,750,000
Banks and financial institutions	**109,199,534**	**72,547,160**	**-**	274,555,235	164,538,487	-
Real estate	**167,869,248**	**68,098,462**	**4,242,721**	56,991,542	6,152,146	8,537,265
Aviation	**5,090,915**	**1,025,554**	**-**	7,159,208	-	-
Individuals	**23,199,665**	**106,905,733**	**1,167,200**	10,846,341	49,883,876	4,659,746
Government and public sector	**135,204,195**	**97,537,011**	**1,218,851**	29,957,802	8,463,880	-
Others	**101,164,971**	**35,459,555**	**784,767**	12,969,445	9,116,099	24,064,000
	554,480,558	**381,997,077**	**7,462,328**	397,696,682	238,225,805	39,011,011
Equity	**-**	**172,483,481**	**-**	-	159,470,877	-
	554,480,558	**554,480,558**	**7,462,328**	397,696,682	397,696,682	39,011,011

18 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Bank's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Bank.

18.1 EQUITY PRICE RISK

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Bank's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and assets held for sale) solely due to reasonably possible changes in equity prices, is as follows:

	2008			
	Change in price	***Effect on net profit***	***Change in price***	***Effect on net profit***
	%	***BD***	***%***	***BD***
Quoted:				
GCC	**10**	**404,564**	**(10)**	**(404,564)**
Unquoted	**10**	**11,288,386**	**(10)**	**(11,288,386)**

	2007			
	Change in price	*Effect on net profit*	*Change in price*	*Effect on net profit*
	%	*BD*	*%*	*BD*
Quoted:				
GCC	10	1,026,589	(10)	(1,026,589)
Unquoted	10	5,133,222	(10)	(5,133,222)

18 MARKET RISK (continued)

18.2 PROFIT RETURN RISK

The Bank has exposure to fluctuations in the profit rates on its assets and liabilities. The Bank recognises income on certain financial assets on a time-apportioned basis. The Bank has set limits for profit return risk and these are monitored on an ongoing basis by the Bank's Asset Liability Committee (ALCO).

The Bank manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

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 with maturities less than one year are as follows:

	2008			
	Change in rate %	***Effect on net profit BD***	***Change in rate %***	***Effect on net profit BD***
US dollars	**0.25**	**506,153**	**(0.25)**	**(506,153)**
Bahraini dinars	**0.25**	**1,656,026**	**(0.25)**	**(1,656,026)**

	2007			
	Change in rate %	*Effect on net profit BD*	*Change in rate %*	*Effect on net profit BD*
US dollars	1	233,879	(1)	(233,879)
Bahraini dinars	1	361,379	(1)	(361,379)

18.3 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Bank's Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Bank's assets and liabilities are denominated in Bahrain dinars or US dollars. The Bank had the following significant net long positions in foreign currencies as of 31 December :

	2008 BD	*2007 BD*
US Dollars	**17,090,387**	12,150,234
Saudi Riyals	**57,553,210**	10,889,630

The effect on income solely due to reasonably possible immediate and sustained changes in exchange rates is as follows:

	2008			
	Change in rate %	***Effect on net profit BD***	***Change in rate %***	***Effect on net profit BD***
US dollars to Bahraini dinar	**1**	**170,904**	**(1)**	**(170,904)**

	2007			
	Change in rate %	*Effect on net profit BD*	*Change in rate %*	*Effect on net profit BD*
US dollars to Bahraini dinar	1	121,502	(1)	(121,502)

19 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily marketable securities. Liquidity position is monitored on an ongoing basis by the Bank's Asset Liability Committee.

The table below summarises the expected maturity profile of the Bank's assets and liabilities at 31 December 2008 and 2007:

	Up to 3 months BD	*3 months to 1 year BD*	*1 to 5 years BD*	*Over 5 years BD*	*Total BD*
ASSETS					
Cash and balances with Central Bank of Bahrain	83,533,981	-	-	-	83,533,981
Central Bank of Bahrain Sukuk	-	6,620,000	24,475,000	-	31,095,000
Murabaha with banks	87,167,449	-	-	-	87,167,449
Murabaha financing	29,807,777	16,005,000	26,555,359	115,609	72,483,745
Ijarah Muntahia Bittamleek	6,022,862	3,892,912	26,505,879	5,109,131	41,530,784
Non-trading investments	-	-	116,929,500	-	116,929,500
Investment in an associate	-	-	-	8,011,913	8,011,913
Investment properties	-	-	-	1,177,528	1,177,528
Receivables and prepayments	20,055,603	256,556	720,670	-	21,032,829
Premises and equipment	-	-	2,583,796	-	2,583,796
Assets held-for-sale	-	19,715,428	69,218,605	-	88,934,033
	226,587,672	46,489,896	266,988,809	14,414,181	554,480,558
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha from banks	-	-	32,880,685	-	32,880,685
Murabaha from non-banks	-	97,980,280	191,024,490	-	289,004,770
Customers' current accounts	-	-	3,231,303	-	3,231,303
Other liabilities	10,182,013	573,360	186	-	10,755,559
Unrestricted investment accounts	-	-	46,124,760	-	46,124,760
	10,182,013	98,553,640	273,261,424	-	381,997,077

19 LIQUIDITY RISK (continued)

	31 December 2007				
	Up to 3 months BD	*3 months to 1 year BD*	*1 to 5 years BD*	*Over 5 years BD*	*Total BD*
ASSETS					
Cash and balances with Central Bank of Bahrain	15,173,663	-	-	-	15,173,663
Central Bank of Bahrain Sukuk	1,560,000	-	18,820,000	-	20,380,000
Murabaha with banks	224,074,527	376,366	-	-	224,450,893
Murabaha financing	13,862,210	5,524,705	13,134,684	120,000	32,641,599
Ijarah Muntahia Bittamleek	107,861	631,093	8,561,767	1,135,142	10,435,863
Non-trading investments	-	-	62,735,696	-	62,735,696
Investment in an associate	-	-	-	8,171,142	8,171,142
Investment properties	-	1,177,528	-	-	1,177,528
Receivables and prepayments	9,632,557	56,096	810,216	6,177	10,505,046
Premises and equipment	-	-	2,979,252	-	2,979,252
Assets held-for-sale	-	9,024,000	-	-	9,024,000
	264,410,818	16,789,788	107,041,615	9,432,461	397,674,682
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha from banks	-	64,102,356	32,880,685	-	96,983,041
Murabaha from non-banks	-	-	106,908,709	-	106,908,709
Customers' current accounts	-	5,688,686	-	-	5,688,686
Other liabilities	8,625,257	51,683	176,844	-	8,853,784
Unrestricted investment accounts	-	-	19,769,585	-	19,769,585
	8,625,257	69,842,725	159,735,823	-	238,203,805

19 LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December, 2008 and 2007 based on contractual undiscounted repayment obligation:

	31 December 2008				
	Up to 3 months BD	*3 months to 1 year BD*	*1 to 5 years BD*	*Over 5 years BD*	*Total BD*
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND COMMITMENTS					
Murabaha from banks	**32,880,685**	**-**	**-**	**-**	**32,880,685**
Murabaha from non-banks	**218,957,897**	**68,928,893**	**1,117,980**	**-**	**289,004,770**
Customers' current accounts	**3,231,303**	**-**	**-**	**-**	**3,231,303**
Unrestricted investment accounts	**46,124,760**	**-**	**-**	**-**	**46,124,760**
Undrawn financing commitments	**-**	**2,434,840**	**-**	**-**	**2,434,840**
Undrawn investment commitments	**-**	**777,766**	**4,249,722**	**-**	**5,027,488**
Profit due on financing contracts	**-**	**1,213,866**	**-**	**-**	**1,213,866**
	301,194,645	**73,355,365**	**5,367,702**	**-**	**379,917,712**

	31 December 2007				
	Up to 3 months BD	*3 months to 1 year BD*	*1 to 5 years BD*	*Over 5 years BD*	*Total BD*
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND COMMITMENTS					
Murabaha from banks	96,983,041	-	-	-	96,983,041
Murabaha from non-banks	101,975,729	4,932,980	-	-	106,908,709
Customers' current accounts	5,688,686	-	-	-	5,688,686
Unrestricted investment accounts	-	19,769,585	-	-	19,769,585
Undrawn financing commitments	-	6,409,746	-	-	6,409,746
Undrawn investment commitments	-	25,510,000	7,091,265	-	32,601,265
Profit due on financing contracts	-	1,227,578	-	-	1,227,578
	204,647,456	57,849,889	7,091,265	-	269,588,610

20 SEGMENT INFORMATION

Primary segment information

For management purposes, the Bank is organised into four major business segments:

Banking - principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.

Treasury - principally handling Shari'a-compliant money market, trading and treasury services including short-term commodity Murabaha.

Investments - principally the Banks' proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Capital - manages the undeployed capital of the bank by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the **year ended 31 December 2008** was as follows:

	Banking BD	*Treasury BD*	*Investments BD*	*Capital BD*	*Total BD*
Operating income	**12,358,078**	**1,363,925**	**11,360,600**	**12,518,655**	**37,601,258**
Segment result	**8,053,899**	**131,570**	**8,111,172**	**9,246,040**	**25,542,681**
Other information					
Segment assets	**111,419,675**	**206,307,380**	**164,730,985**	**72,022,518**	**554,480,558**
Segment liabilities, and equity	**332,442,317**	**41,505,053**	**1,000,000**	**179,533,188**	**554,480,558**

	31 December 2007				
	Banking BD	*Treasury BD*	*Investments BD*	*Capital BD*	*Total BD*
Operating income	11,832,171	866,524	11,184,478	8,829,000	32,712,173
Segment result	8,000,973	51,399	8,335,463	6,761,159	23,148,994
Other information					
Segment assets	42,574,473	175,158,216	84,587,099	95,376,894	397,696,682
Segment liabilities, and equity	126,635,534	104,044,820	23,241,303	143,775,025	397,696,682

20 SEGMENT INFORMATION (continued)

Secondary segment information

The Bank primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

21 FIDUCIARY ASSETS

Funds under management at the year-end amounted to [BD25,000,000] (2007: BD 26,202,212). These assets are held in a fiduciary capacity and are not included in the balance sheet.

22 SHARI'A SUPERVISORY BOARD

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

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Bank's financial instruments are not significantly different from their carrying values as at 31 December 2008 and 2007.

24 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year 2008, the Bank received income totaling BD 2,767 (2007: BD 151) from conventional financial institution on current accounts balances. These funds were held as payable to charity as they are prohibited by Shari'a law.

25 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibility through Zakah, charity fund expenditures and donations to the good faith qard fund which is used for charitable purposes. During the period the Bank incurred an amount of BD 536,084 (2007: BD 35,100) on account of charitable donations.

26 ZAKAH

The total Zakah payable as of 31 December 2008 amounted to BD 1,437,774 of which BD 822,525, representing the Zakah on the statutory reserve, general reserve and retained earnings balances for the year 2008, is payable by the Bank. The remaining Zakah balance amounting to BD 615,249 (2007: 3,522,047) or 0.51 fils (2007: 2.94 fils) per share is due and payable by the shareholders.

27 CAPITAL

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Bahrain. The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements. The Bank complied in full with all externally imposed capital requirements during the years ended 31 December 2008 and 31 December 2007.

27 CAPITAL (continued)

The risk assets ratio calculations, in accordance with the 'Basel II' capital adequacy guidelines of the Central Bank of Bahrain are as follows:

	2008	*2007*
	BD	*BD*
Capital base (Tier 1)	**107,989,000**	126,809,000
Credit risk weighted exposures	**393,251,000**	208,682,000
Market risk weighted exposures	**3,213,000**	775,000
Operational risk weighted exposures	**40,410,000**	50,888,000
Total risk weighted exposure	**436,874,000**	260,345,000
Capital adequacy	**24.7%**	48.7%
Minimum requirement	**12.0%**	12.0%

28 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current period. Such reclassifications have not resulted in any change to the previously reported net income or shareholders' equity.