مصرف

AL SALAM BANK

Bahrain البحرين

Resolute and Robust, the date palm tree is more than just a tree. It is a symbol of vitality and prosperity.

It is beauty and elegance. It is possibility and potential. Known to withstand the harshest of climates, the date palm tree symbolizes achievement – a true symbol of confidence and success.

Annual Report 2009

Taking Stock
...Embracing Possibilities

Understanding the challenges of the industry and focusing on the possibilities ahead, Al Salam Bank-Bahrain strides on keeping pace with the rapid changes. We will maintain an innovative yet cautious approach as we anticipate a wide spectrum of opportunities in the coming years. The new world order with the changing market dynamics has necessitated a pro-active and responsive attitude – an inherent characteristic of our people who underpin the corporate strategy and the promise of deliverance made.

As we project into the future, we stride ahead constantly refining our action plans underlining our strategy to satisfy our customers and shareholders. It is all about taking stock with confidence and embracing possibilities of the future. A parallel we have drawn with the date palm tree, a natural phenomena of the region.

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of the
Kingdom of Bahrain

His Majesty
King Hamad bin Isa
Al Khalifa

The King of the
Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince &
Deputy Supreme Commander

Contents

Our Vision & Mission

Our Vision

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

Our Mission

- Become a "one-stop-shop" for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders based upon their specific risk appetites.

Corporate Overview

Headquartered in the Kingdom of Bahrain, Al Salam Bank-Bahrain (B.S.C.) is a dynamic, diversified and differentiated Islamic bank.

Key factors that contribute to the Bank's distinct market differentiation include:

- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-caliber management team;
- State-of-the-Art IT infrastructure;
- Universal business model covering deposits, financing and investment services;
- Innovative, tailor-made Shari'a-compliant solutions;
- Firm commitment to corporate and social responsibility;

Incorporated on 19 January 2006 in the Kingdom of Bahrain and commenced commercial operations on 17 April 2006, the Bank operates under Shari'a principles in accordance with regulatory requirements for Islamic banks set by the Central Bank of Bahrain.

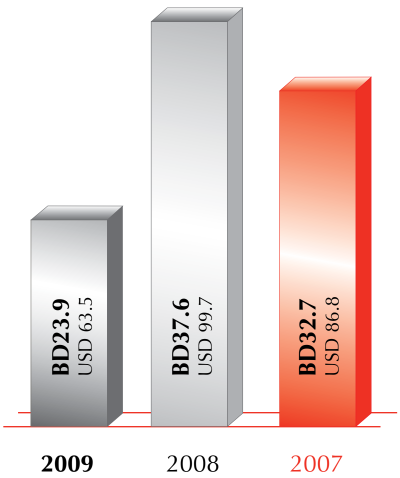
Al Salam Bank-Bahrain was listed on the Bahrain Stock Exchange on 27 April 2006, and subsequently on the Dubai Financial Market on 26 March 2008. The Bank's high-caliber management team comprises highly qualified and internationally-experienced professionals with proven investment expertise in key areas of banking, finance and related fields; all supported by a world-class Information Technology (IT) infrastructure and the latest 'smart' working environment. In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank BSC. In just 3-years of establishment the Bank has a network of 8 branches and 16 ATMs in the Kingdom. Established with a paid-up capital of BD120 million, the Bank's total equity has crossed circa BD202 million (US$540 million) with total assets crossing the US$2 billion mark.

Al Salam Bank-Bahrain is committed to adopting internationally recognized standards and best practices in Corporate Governance and operates with highest levels of integrity, transparency and trust.

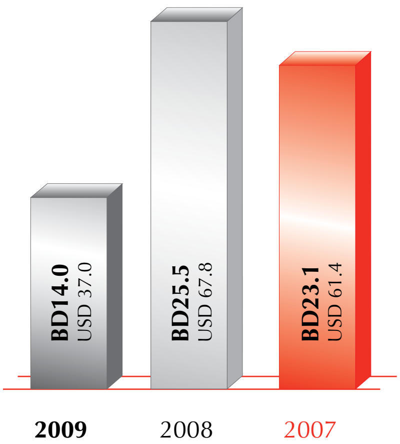
The Bank is committed to its role as a concerned corporate citizen, actively seeking ways to contribute and add value to the social and economic well-being of the local communities in which it invests and operates.

Annual Highlights

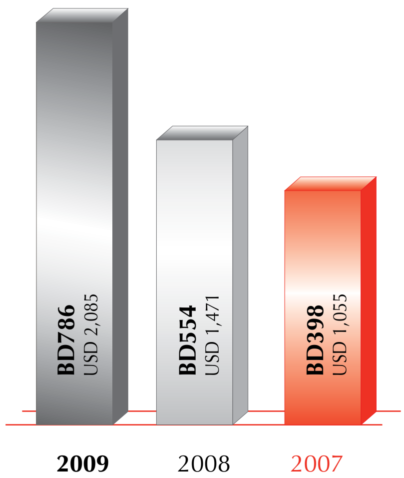
Key Financial Indicators



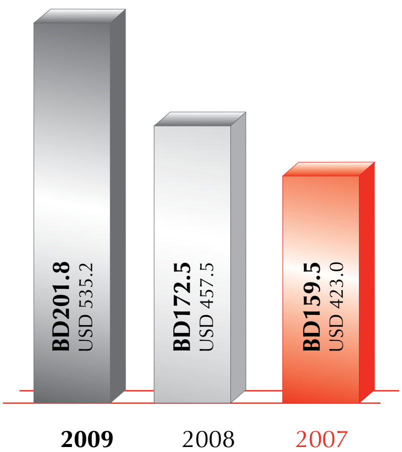
Total Operating Income (million)



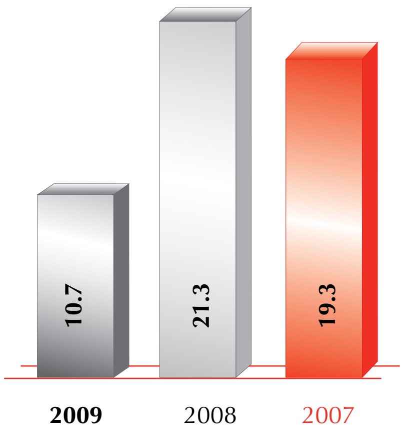
Net Profit (million)



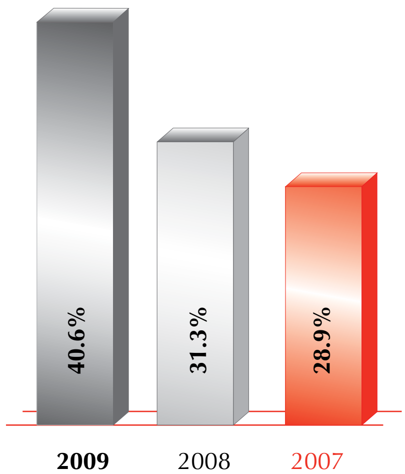
Total Assets (million)



Total Equity (million)



Earnings Per Share



Cost to Income Ratio

Board of Directors

H. E. Mohamed Ali Rashid Alabbar
Chairman

Mohamed Ali Alabbar is the founding member and Chairman of Emaar Properties PJSC, the Dubai-based global property developer. He serves on the board of directors of the Investment Corporation of Dubai (ICD), the investment arm of the Government of Dubai. He is also a Board Member of Noor Investment Group, an affiliate of Dubai Group, focused on Shari'a compliant financial services. A graduate in Finance and Business Administration from Seattle University in the United States, Mr. Alabbar works closely with regional NGOs, and is especially committed to the cause of educational reform and social housing. A keen sportsman, he is Chairman of the UAE Golf Association.

Habib Ahmed Kassem
Vice Chairman

Mr. Habib Kassem is the Chairman of Almahd Investment Company, Bahrain Ferro Alloys, Bahrain Electricity Supply & Transmission Company, Capital Growth Management and Quality Wire Products Company. He is also the Chairman of Almahd Day Boarding School. Mr. Kassem was Minister of Commerce and Agriculture, Kingdom of Bahrain from 1976 to 1995, and Member of the GCC Consultative Council for the Supreme Council from 1997-2007.

Essam bin Abdulkadir Al Muhaideb
Director

Essam Al Muhaideb is the Group Managing Director of A.K. Al Muhaideb & Sons Group, and Board of Directors member in several organizations having interests in banking & insurance, FMCG & retail, building & construction, industrial, real estate apart from educational, charitable and benevolent organizations. Emmar Middle East, United Sugar Company, Amwal Al Khaleej, Saudi Tabreed Company, Synthomer Middle East, Nestle Co, Damas Co , Al Oula Real Estate Development Co, Dubai Contracting Company (DCC), Al Salam Bank, Gulf Union Insurance Company, Al Massa International Inc-Canada, Dnata Kuwait, Saudi Fisheries company, Aziziah Panda United Co, Savola Foods Co, Al Latifia Trading & Contracting Co. Moreover, he is a member in some of charitable and non profitable organizations such as King Fahad University of Petroleum & Minerals Endowment Fund, Prince Sultan Ladies' Fund.

H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa
Director

An active member of the royal family of the Kingdom of Bahrain, Shaikha Hessa gained her Bachelors degree in Management (1998), and her Masters degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. She is an alumnus of Young Enterprise, Junior Achievement in the UK and joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded inJAz Bahrain which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director. With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panelist at various occasions including the Supreme Council for Women in the UN at the 49th session, the WEF regional meeting in 2005 and the Global Leadership conference in UAE in 2006.

Board of Directors (continued)

Mr. Salman Saleh Al Mahmeed
Director

Mr Salman Al Mahmeed is the Deputy Chief Executive Officer of Bahrain Airport Services, the Deputy Charmin of Dar Albilad, the Managing Director and Owners' Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Managa Holdings. Mr Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and BSc degree in Administration from Cairo University.

Sheikh Abedlelah Mohammed Saleh Kaki
Director

Sheikh Abedlelah M.S. Kaki has more than 35 years experience in banking, trading & industry. He is the Chairman of Saudi International Trading & Marketing Ltd. AMK Gulf For Investments & International Agencies Co. Ltd. and United Gulf Industries Ltd in Saudi Arabia, Marsh Saudi Arabia Insurance & Reinsurance Broking, Marsh Insurance Consulting Saudi Arabia. He is also the Chairman of Noubaria Seed Production Co, Nile Company For Development & Tourism & Real Estate Investment, Tanta Flax & Oil Co, SAE and Mediterranean Agricultural Products Co (MAPCO) in Egypt. He is an active board member in several Egyptian Companies; Saudi Corporation for Arab Investment SAE, Egyptian Saudi Investment Tourism & Real Estate Co, Lacto Misr Co and Dynarabia Co Ltd, Al Jouf Cement Company in Saudi Arabia. Mr Kaki is a graduate in Economics from United States International University in California, United States of America.

Mr. Fahad Sami Al Ebrahim
Director

Mr. Fahad S. Al-Ebrahim, with more than 9 years of professional experience, is currently the Vice President - Regional Client Relationship of Global Investment House (GIH). He is a Board Member of Al-Mazaya Holding Company in Kuwait and a Board Member of First Securities Brokerage Company S.A.K. Mr. Al Ebrahim has established one of the leading wealth management groups specialized in looking after the international clients who are looking for exposures towards the Middle East and North Africa region. Prior to joining GIH, Mr. Al-Ebrahim worked in the Kuwait News Agency on the English News Desk. He is a graduate from the University of Oregon with an emphasis in communication studies and holds a post-graduate degree in business administration from the Maastricht School of Management.

Mr. Hamad Tarek Alhomaizi
Director

Mr. Hamad Tarek Alhomaizi has a BS in Computer Science and Business Administration from George Washington University and has a strong IT background and technical understanding of web technologies. He has varied experience in a number of areas including direct investments, hedge funds, real estate and startup businesses. He has worked in various capacities from Board level to analyst in various companies and was a founding Board Member in companies including Shuwaikh Real Estate Projects Company (Kuwait), Ishraq Real Estate Company (Bahrain / UAE) and Al Shaab Holding Company (Kuwait).

Board of Directors (continued)

Mr. Ahmed Jamal Jawa
Director

A graduate in Business Administration with an MBA from the University of San Francisco, Mr. Ahmed Jawa has served on the boards of the Novapark Swiss Hotel Group; Mirapolice, an entertainment company that builds theme parks in France; and Tricon Group, a US based securities trading firm. Mr. Jawa is President, CEO and Board Member of Starling Holding Ltd, a global investment group that deals with private equity and direct investments world-wide. He is also President of Contracting and Trading Company (CTC), a Saudi Arabian firm that oversees investment opportunities and options in the GCC region and the Middle East. Mr. Jawa has also been honored as one of the Global Leaders of tomorrow by the World Economic Forum in February 2006.

Mr. Terence D. Allen
Director

Mr. Allen has more than 40 years of experience in the treasury and investment banking business. He is the founder and Managing Director of Allied Investment Partners PJSC. He has spent several years in the private fund management business, where he was a Director of several asset and fund management companies. In the past he has been appointed as advisor and consultant to several regional governments and institutions. He is a Qualified Arbitrator for the GCC. He is the author of several books and frequently produces articles for newspapers and journals ranging from military history to financial and banking topics.

Yousif Abdulla Taqi
Director & Chief Executive Officer

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), and was responsible for establishing Kuwait Finance House Malaysia. Before this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted to Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c) and ASB Biodiesel (Hong Kong) Limited, affiliates of ASBB, and also a board member of Al Salam Bank-Algeria and Aluminum Bahrain (ALBA).

Secretary to the Board

Khalid Ahmed Abdulla Al Ashar

Mr. Al Ashar holds a BSc in Commerce and Business Administration from Beirut Arab University. He previously worked in the Operations Department at the Bank of Bahrain and Kuwait and Arab Banking Corporation. He also held the position of Director of Human Resources and Administration at the Liquidity Management Centre. He enjoys a long experience in the field of establishing Islamic banks and contributed in the establishment of the Liquidity Management Center.

Fatwa and Shari'a Supervisory Board

Dr. Hussain Hamid Hassan
Chairman

Dr Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Masters in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LL B in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.

Dr. Ali Mohuddin Al'Qurra Daghi
Member

Dr. Al'Qurra Daghi holds a PhD in Shari'a and Law, and a Masters in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'Qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.

Shaikh Adnan Abdulla Al Qattan

Member

Shaikh Adnan Al-Qattan holds Masters degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Mohamed Abdulhakim Zoeir

Member & Secretary to the Board

Dr. Zoeir holds PhD in Islamic Economy; Masters degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years experience with Egypt Central Bank. Dr. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.

The date palm tree yields at least 1,000 pounds of fruit a year. The trees are planted in uniform rows and grow to be 40 to 100 feet tall. The date palm tree begins producing fruit when it is about seven years old and sustains abundant yields on average for 75 years, although the tree itself may live to be 150 years old

*"And we have made therein gardens of date-palms and grapes,
and we have caused springs of water to gush forth therein"*

(The Noble Qur'an, Surah YaSin, Verse 34)

Board of Directors' Report to the Shareholders

The Directors of Al-Salam Bank-Bahrain B.S.C. ("the Bank") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2009.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Bahraini Saudi Bank BSC (together known as "the Group").

Fiscal year 2009 proved to be very challenging; yet the third full year of commercial operations had been successful representing your Bank's fourth profitable period since its inception in April 2006. The Group's total assets reached BD785.9 million, surpassing the US$ 2 billion mark, with a net profit of BD 14 million (US$ 37 million) for 2009.

The year under review saw the extension of credit and liquidity crunch experienced in the latter half of 2008 with fears of a double dip recession. In spite of extremely adverse market conditions, the Group managed to post a massive growth in total assets from BD554.5 million (US$1.47 billion) at 31 December 2008 to BD785.9 million (US$2.1 billion), an increase of BD231.4 million or 42% over 31 December 2008. This is largely due to the Bank's successful acquisition of a 90.31% stake in Bahraini Saudi Bank B.S.C. (BSB), a locally listed commercial bank in Bahrain. On the income side, the adverse business climate prevented planned exits of available for sale investments resulting in a 45% lower net profit. Whilst the gross operating income declined by 36% prudent cost management resulted in significant cost savings of 17% over corresponding figures for 2008.

The directors believe that to be a successful financial institution, the Group needs to build on its network within Bahrain, start on regional strategic expansion across the GCC and seriously consider venturing into family Takaful business to be able to offer a complete suite of Islamic financial services to its customer base. To this end, the Bank successfully acquired a 90.31% stake in BSB through a share exchange offer and expanded its branch and ATM network within Bahrain to 8 branches and 16 ATMs, respectively. This acquisition marked a major milestone in the history of your Bank which is actively seeking to identify similar opportunities to support inorganic growth and achieve its vision of becoming one of the largest Islamic financial institutions in the region. The Board and executive management are ambitious in positioning the Group as the largest Islamic bank in Bahrain in the coming years.

The directors have resolved to maintain BSB's corporate legal status in the near future, so the Group could dedicate BSB to focus and complement the Group on Islamic retail and commercial banking operations in the Kingdom. Through this acquisition, the Group has created visibility in Bahrain and is enhancing its service delivery capabilities to small and medium sized clients through BSB, whilst the parent Bank is focussing on serving the large corporate, high net worth and ultra high net worth clients. Such an approach will not compromise on the Group's service levels to its customers since the Bank had been successful in obtaining the Central Bank of Bahrain's ("the CBB") approval to offer services to the Group's customers throughout its network. This means that regardless of where the customer established their accounts they will be able to operate their accounts throughout the entire Group's branches.

During 2009, the Bank exercised extreme prudence in entering into new financing and investment transactions in order to preserve liquidity and bring only offerings that are backed by dependable cash flows. This is reflected in a modest 22% growth in the financing portfolio as the management has been watching the market conditions and the credit environment with a commitment to move away from real estate and create a diversified financing portfolio. On the investments side, the acquisition of a stake in Milton Gate, a trophy asset domiciled in Central London with a financially sound and established tenant is a testimony of your Bank's commitment to bring only solid transactions to its client base. The Bank concluded the transaction in June 2009 and placed a majority stake with its investors at a running yield of 10% per annum paid quarterly. This deal also resulted in the Bank winning the International Real Estate Financing Summit (IREFME 2009) Award of Excellence for Outstanding Achievement in Islamic Real Estate Product Innovation. The marketing and sales of this transaction was concluded in a span of less than one month with demand from investors outweighing the offering size.

On the treasury front, the Group continued to expand its financial institutions relationship network. At 31 December 2009 your Group was a net lender to the banking system to the tune of BD173 million (US$459 million). In addition, the Group invested in the CBB sukuk to the tune of BD33 million improving the financing portfolio diversification and strengthening the liquidity position as they are eligible for repurchase by the CBB in case of liquidity needs. Thus, the liquidity ratio of the Group remained extremely strong at 37.6%, net of due to banks and excluding the CBB sukuk, meaning 37.6% of customer liabilities were maintained in liquid funds. Throughout the fiscal year 2009, the executive management had been mindful of the need to be sufficiently liquid to ensure that customer needs are met timely. Since inception of the Bank in 2006, the Bank continues to be a net lender to the Banking system.

On the real estate sector front, anticipating strict regulations by the CBB, the Bank had tightened its investment in and financing to the real estate sector, and limited its exposure to 24% (31 December 2008: 30.0%) of its total assets. Given that there is a huge demand of dwelling units that are affordable, the Bank is committed to undertaking a role with the support of the Government of Bahrain in developing affordable housing solutions with a launch targeted in the later half of 2010. 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 and bearing in mind investor's cash yield expectations.

The Directors believe that recent challenges facing the banking sector will continue into 2010 and the Group is no exception to these challenges however, with a strong and growing deposit base and a robust risk management framework, we are confident that your Group is poised to outperform its peers in the medium to long term and to establish itself as a model for a universal Islamic bank.

In the Extraordinary General Assembly Meeting held on 4 May 2009, the shareholders approved the Bank's proposal to acquire up to 100% of the issued and fully paid up ordinary shares of BSB, consisting of

Palm trees are evidence of god's glorious creation and grace as its fruit varies in its taste and type whilst the tree remains one of its kind.

Board of Directors' Report to the Shareholders (continued)

500,000,000 ordinary shares. The shareholders also approved an increase of the authorized share capital of your Bank from 1,200,000,000 shares of nominal value BD 0.100 each to 2,000,000,000 shares of nominal value BD 0.100 each. Following acquisition of a 90.31% stake in BSB, the Bank issued 225,775,075 ordinary shares to shareholders of BSB who accepted the Bank's offer thereby increasing the paid up shares to 1,425,775,075 shares.

Meanwhile, in the Extraordinary General Assembly Meeting held on 12 November 2009, the shareholders resolved to increase the number of the Bank's Board of directors to fourteen and have also endorsed the Board's recommendation to raise funding through the issuance of sukuk. Following this resolution, the Board of the Bank was expanded by two members and as resolved at the EGM held on 4 May 2009 invited two members from amongst the BSB shareholders who accepted the Bank's share exchange offer. Today, we are privileged to have Sheikh Abedlelah Mohammed Kaki and Mr Salman Saleh Al Mahmeed as part of the Board of Directors. Furthermore, the shareholders also resolved to amend the articles of association of the Bank to pass the Bank's obligation to pay Zakah from the earnings on to the shareholders effective 1 January 2009. These resolutions were implemented by the Bank.

Financially, fiscal year 2009 had seen a decline in net profit from BD25.5 million in 2008 to BD14 million in 2009, representing a return on equity of 7.6% (2008:16.1%). The gross operating income amounted to BD23.9 million (2008: BD37.6 million) and the operating expenses were BD9.4 million (2008: BD11.8 million). The reduction in the operating expenses is attributable to prudent cost management. The cost-to-income ratio for the year was 40.6% (2008:31.3%). The earnings per share (EPS) for the year amounted to 10.7 fils (2008: 21.3 fils). The directors have recommended cash dividend of 5 fils per share or 5% of the paid-up capital with a further 5% of the paid-up capital as bonus shares subject to shareholders' approval in the forthcoming Annual General Meeting.

Retained earnings and appropriation of net income:

	BD'000
Balance at beginning of the year	**12,575**
Net profit for the year - 2009	13,960
Transfer to statutory reserve	(1,396)
Transfer to investment reserve	(5,772)
Stock dividend	(7,129)
Proposed dividends	(7,129)
Charitable contributions	(100)
Balance at end of the year	**5,009**

Directors' and senior management interest:

As required by the Central Bank of Bahrain rule book 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 shareholdings as of 31 December 2009.

	31/12/2009
Directors' shares	118,414,178
Senior Managers' shares	4,208,812
	122,622,990

Directors' remuneration, fees and expenses for attendance at Board meetings for 2009 amounted to BD250,000 (2008: BD 320,000).

Shareholding Schedule:

	No. of shares	2009 No. of Shareholders	% of total Outstanding shares
Percentage of shares held			
Less than 0.5%	658,205,954	23,248	46.2
0.5% to less than 1%	264,097,908	25	18.5
1% up to less than 5%	362,504,950	15	25.4
Over 5%	140,966,263	1	9.9
Total	1,425,775,075	23,289	100.00

	Nationality	% of Holdings
Shareholders holding >5% Shares:		
Global Mena Macro Fund Company B.S.C.	Bahrain	9.9

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 2010.

15 February 2010
Manama, Kingdom of Bahrain

Mohamed Ali Rashid Alabbar
Chairman

Message from the Chief Executive Officer

At the outset, I am pleased to highlight that the Bank had its fourth consecutive profitable year since its inception in 2006. The gross operating income stood at BD35.18 million (BD51.91 million in 2008) and the net profit for the year was BD13.96 million (BD25.54 million in 2008). The balance sheet size shows an impressive growth of 41.74% over the previous period and has now crossed over the US$2 billion mark (BD785.93 million).

The results and the increase in the balance sheet size has been achieved in a year that has been a very challenging period for the regional and world economy. It has been the most testing year since our formation and the notable performance is attributable to the prudence and insight of ASBB management in the areas of asset growth, liquidity deployment and cost management.

ASBB's business model in the past had been biased towards investments. In order to strengthen the retail/ commercial banking activity, the banks' executive management, with the approval of the Board launched its initiative in 2009 to seek suitable retail/commercial banking targets for acquisition. The result of this strategic initiative is the acquisition of Bahraini Saudi Bank resulting in significant addition to the branch and ATM networks of the bank.

The liquidity ratio as of 31 December 2009, after netting interbank liabilities, stood at 37.60% (50% in 2008). Our capital adequacy ratio has increased to 28.60% as of 2009 (compared to 24.70% as of 2008). This puts us amongst the strongest capitalized banks and provides an ideal platform to benefit from an anticipated recovery in regional and global economies and markets.

Our core businesses lines, Banking and Investments groups experienced a very successful year. In 2009, there was significant growth in the interbank placements and deposits of the Group. Customer deposits increased to BD458.97 million as of 31 December 2009 from BD338.36 million as of 31 December 2008, an absolute increase of 35.64%. The healthy growth reflects the confidence of the customers and the counterparties in our bank and its management. While being extremely cautious in building assets, the overall Islamic financing facilities grew moderately by BD24.96 million compared to 2008.

The Wealth Management Group was able to place a majority stake of the Bank's investment in Milton Gate, a prime office building in the UK, with our clients in record time. During the year the Bank has signed an agreement with a large business investor in Brunei to be a 50% partner in our leasehold interest in Burj Al Safwa, Mecca.

The Retail Banking Department has launched an innovative Shari'a compliant Takaful-principle-based credit card. To innovate and upgrade its services to its customers, the Bank has introduced "Resala" SMS notification service. As a part of providing new products to the customers, the Bank has launched "Moteri" vehicle financing and "Dari" property financing during the year.

Being a socially responsible institution and to contribute to the society we live in, the Bank has contributed both in money and in kind to the tune of about BD1 million to needy non-profit social organizations, educational institutions and has helped many individuals for their medical treatments.

I would place on record my appreciation to ASBB staff who have been exercising diligence, skill and professionalism in discharging their duties. I am also thankful to the Board and the regulators for their strong support and constructive guidance in the areas of our operation. Special thanks to the shareholders, customers and clients for their continued support and confidence. As always, I note my appreciation of the longstanding support of the Government of the Kingdom of Bahrain and its leadership.

Yousif Abdulla Taqi

The Date palm tree rises up high in the sky and produces its dates if only pollinated. If the top of it is chopped off the rest of it dies in contrast to other types of existing trees which in many ways is akin to the human brain that influences human thinking.

Management Review of Operations & Activities

Operating environment

The decline in global economic activity triggered by the collapse of Lehman Brothers in late 2008 continued throughout the year and had a severe impact on financial institutions in every market. The effect of the global slowdown rippled through the region that witnessed the burst of the regional real estate bubble. Investors withdrew from the market bringing the Sukuk and private equity investment activity to a standstill. Institutions operating on high leverage for growth saw liquidity disappearing. The situation gave rise to an increased number of distressed opportunities but with limited buyers especially in the real estate markets. This operating environment had a negative impact on the asset values.

Business environment

While operating under difficult market conditions, the management remained focused on building a strong balance sheet and improving the quality of assets. The Bank embarked on an inorganic growth strategy in order to expand the customer base and improve customer reach. As a result, 90.3% of Bahraini Saudi Bank was acquired through a share exchange offer during the year. The acquisition added six new branches and twelve additional ATMs to the Bank's network.

Financial performance

The management was actively engaged in protecting the balance sheet and focusing on asset quality amid the general decline of asset values in both global and regional markets. The Bank remained profitable and recorded its fourth consecutive profitable year since inception in 2006. The limited availability of high quality assets had a negative impact on current year's profitability. The net profit for the year declined to BD 13.9 million (BD25.5 million in 2008), a 45% decrease from 2008. The total operating income declined by 36% to BD 23.9 million (BD 37.6 million in 2008).

Capital adequacy

The Bank's capital adequacy continues to reflect a healthy ratio of 28.6% (24.7% in 2008) as of end of the fiscal year against a regulatory requirement of 12% stipulated by the Central Bank of Bahrain under the new Basel II framework that came into effect in 2008.

Asset quality

The total assets continued to grow during the year to BD 785.9 million and achieved an impressive 42% growth over the previous year (BD 554.5 million in 2008) in a challenging operating environment. This significant growth was mainly due to the acquisition of BSB during the year. Financing portfolio of the Bank expanded by 22% in spite of the management's effort to seek acceptable risk/return profile . The combined equity increased to BD 198.2 million (BD 172.5 million in 2008) reflecting the strength of the balance sheet.

The increase in equity is underpinned by the issue of 225.8 million new shares to BSB shareholders as part of the acquisition process. Customer deposits increased by 36% to BD 459.0 million (BD 338.4 million in 2008) providing the necessary liquidity.

Since inception, the Bank continues to be a net lender to the local banking system. The liquidity ratio (cash and short term funds, less interbank liabilities, to customer liabilities) of the Bank reflected an extremely strong 37.6% (50% in 2008) at end of the fiscal year.

Profitability

In an environment where high net worth investors in the Middle East have seen substantial erosion of their asset values, the Bank generated BD 11.8 million (BD 30.3 million in 2008) income through placement of high quality assets where investor appetite remain strong. As a result of the growth in financing portfolio, income of financing contracts increased to BD 16.7 million (BD 14 million in 2008). It should be noted that due to extremely prudent credit assessment processes that are in place, provision was not required against assets.

Due to the focused efforts in controlling operating expenses, substantial cost savings of 17%, including reduction of staff costs by BD 1.7 million, were achieved during the year.

Assets under management

The assets under management of the Bank grew by BD 35.7million during the year to BD 60.7 million (BD 25 million in 2008). This is a remarkable achievement by our wealth management team in a period where investment appetite of high net worth individuals saw drastic reductions. This also reflects on the strength of our placement franchise. The Bank has built a strong relationship with our investors over the short history of the Bank by demonstrating our professional approach, unique and attractive investment opportunities and personalized service.

Banking Group

The acquisition of Bahraini Saudi Bank strengthened our capacity to serve our customer base in the Kingdom. Through the acquisition six new branches were added to the two existing branches of the Bank taking the total number of branches to eight.

Similarly, the addition of twelve new ATMs located throughout all five Governorates significantly improved services offered to our valued customer base. The total number of ATMs in the kingdom now stands at 16. This new addition brings us a further step closer to our goal of being the "one stop shop" for Islamic banking services. We will continue to improve our services in order to provide best in class retail and commercial banking products and services to our clients. We have been selective in our approach to building assets as we aim to create a high quality asset portfolio, a sustainable client base and a strong local and regional presence.

While we continue to strengthen retail, corporate and private banking services, the Bank also offers tailored products to the wealth management market segment. Our wealth management products are offered to investors through a dedicated placement team who provide personalized services. The placement and relationship professionals meet the investors frequently and assess their appetite and risk profile prior to offering any customized solutions. The wealth management team successfully offered two new attractive investment opportunities to accredited investors. In particular, restricted investment offer of Milton Gate, a prime office building in the City of London with extremely strong tenant covenant which provides a 10% cash yield to investors was fully subscribed in record time. During the year investors who participated in investment products structured by the Bank across real estate, hospitality and private equity, acquired assets amounting to BD 35 million (BD 113 million in 2008).

The Bank successfully launched several new retail products in order to satisfy growing customer demand. Dari, property acquisition financing which offers the flexibility of a long term repayment period, Moteri, vehicle purchase financing are some of unique Islamic banking products that were introduced during the year. In addition to these financing products, Step-Up Wakala program that was launched during the year was extremely successful in raising medium term liquidity profile.

Investments

As in any other year, our private equity teams reviewed a large number of opportunities during the year. However, due to the extremely cautious approach adopted by the management, Milton Gate was the only new investment that was acquired in 2009. The investment in a prime city office building with strong tenant covenant of ten plus years to a UK top 15 legal practice attracted significant investor interest demonstrating the Bank's ability to source attractive investment opportunities in tough market conditions.

In recognition of the innovative Shari'a complaint investment structure that was used to acquire the property, the Bank was awarded the "Excellence for Outstanding Achievement in Islamic Real Estate Product Innovation" at the International Real Estate Financing Summit.

The timing of the acquisition proved to be favorable as the valuation of prime commercial properties in the City of London strengthened rapidly in the second half of the year. The investment provides a very attractive 10% cash yield to our investors.

Our continuous efforts to provide unique Shari'a compliant investment opportunities to our customers require us to follow a diligent process in selecting, acquiring and managing investments in our target markets. To this end, we have put in place a robust investment process with multiple layers of controls involving several distinct and independent functions within and outside the Bank.

The investment teams continue to work with the operating companies in offering advice and assistance in new initiatives in order to focus on value preservation of our investments.

The Bank's investment in a 1999 built Boeing 777-200ER aircraft leased to Malaysian Airline Systems Berhad continues to meet investor expectations. The investment provides a cash yield of 9.5% per annum to investors paid on a quarterly basis.

The development of the ASB Biodiesel plant in the Tseung Kwan O industrial area of Hong Kong is now progressing according to the plan in spite of some challenges due to the performance quality of the main contractor. Due to the Bank's close involvement in post acquisition management of existing investments, we were able to identify and contain the potential issues and a new contractor was introduced with minimal setbacks. The state-of-the-art 100,000 MT plant will use waste cooking oil, grease trap waste, non pork animal fat and palm oil fatty acid to produce environmentally friendly biodiesel, a sustainable, alternative energy for conventional diesel engines. The plant is expected to be operational in early 2011.

The Bank's USD 40 million investment across diversified asset classes in China has progressed and had been able to maintain the overall investment values in spite of the economic down turn that experienced large fair value declines across the private equity asset class. The underlying investment portfolio of the fund comprises of significant minority stakes in agricultural business, food, pharmaceutical, logistics, galvanized steel and industrial machinery. The fund manager is targeting two IPOs in 2010 as the market for new listings in China are set to improve.

Corporate Governance and Risk Management

The primary responsibility of the investment teams is to identify high quality private equity and real estate assets through their regional experience. These teams are dedicated to source, evaluate, acquire and enhance value of these assets and seek potential exits.

All potential investment opportunities are analysed by the investment teams if they meet the basic investment guidelines set out by the Banks' Investment Committee. The opportunities that satisfy these guidelines are then subjected to an independent review by the investment Middle Office , a risk assessment, a legal review and a conceptual Shari'a Board approval. The selected opportunities are presented for Investment Committee approval. The Investment Committee comprises of senior management from all business areas of the Bank.

Many hadiths were said by prophet Mohammed (PBUH) about the favors and generosities of palm trees, (PBUH) compared palm trees to Muslims as it extends its blessings, shades and fruits all the time. Dates are edible, nutrient fresh and dried alike.

Management Review of Operations & Activities (continued)

Know Your Customer

As part of our continuous effort to provide innovative products and services to our customers, the Bank places significant emphasis on understanding customer needs. Understanding their business activities and sources of wealth is considered to be an integral part of this process of meeting and exceeding customer expectations.

The Bank complies with Financial Crimes Module of Central Bank of Bahrain's rule book. This module contains Bahrain's current anti money laundering legislation developed under the directives of the Financial Action Task Force which is the international organization responsible for developing global anti money laundering policies.

Human capital

Our human resource strategy is focused on building a high performance talent pool that is sustainable over a long period of time with a diversified level of competence. In its short history, the Bank has been able to attract and retain some of the best industry professionals in the region. We take pride in our 82.4% (80% in 2008) of Bahraini employees in the total of 233 (124 in 2008) employees across all locations. Human resources pool of the combined Bank doubled during the year as a result of the acquisition of Bahraini Saudi Bank.

The Bank recognizes that in order to motivate and retain the best talent, it is necessary to provide competitive compensation based on individual and overall performance of the Bank. Annual performance reviews are conducted to formalize individual strengths and training requirements are identified through continuous interaction. In order to provide various training opportunities to employees to acquire and maintain a high level of competency, the Bank invested BD 36,000 in 2009 (BD 110,000 in 2008). The employees across the Bank received 5,380 hours (3,343 hours in 2008) of formal training through in-house and externally arranged training programs.

The management maintains an open dialogue with employees to encourage transparency. Regular employee events including an annual gathering to review the Bank's performance and discuss future strategy forms part of the social calendar. Workshops are organized to improve efficiency and increase productivity at workplace. These social events encourage interaction among employees and foster their relationships outside working hours.

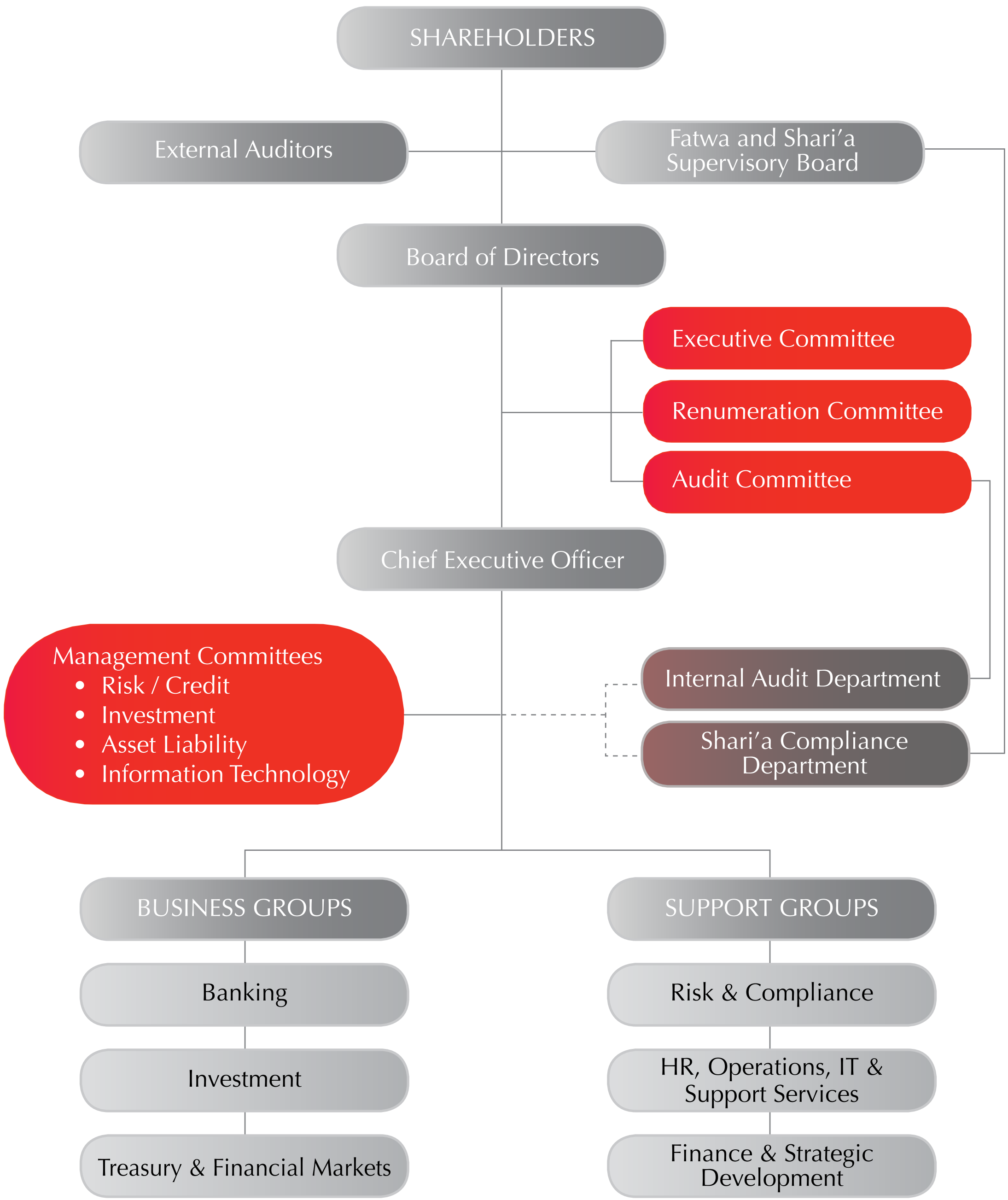
Corporate Governance

The Board is committed to establishing the highest standards in Corporate Governance. To this end, it has established various committees in line with industry best practice and has also directed the senior management to establish various management committees with relevant members. The Board Charter imposes the highest level of ethical conduct; doing what it proclaims to be its responsibility; reporting results with accuracy and transparency in a timely manner; and ensuring full compliance with the by-laws and the rules and regulations that govern the Bank's business. The Board has adopted a Board Charter, which together with the Bank's Memorandum and Articles of Association and the terms of reference of various Board Committees, provides the authority and practices for governance of the Bank.

The Board provides central leadership to the Bank. It has established and defined the objectives and strategies that direct the ongoing activities of the Bank to enable it to achieve its objectives. The roles and responsibilities of the Board of Directors, their independence, code of conduct and ethics are described in the Board Charter.

The palm tree is considered to be one of the most adaptable trees in the world. It requires watering only once every two weeks and is able to withstand the dry, hot days and cold nights of the harsh desert climate.

The Bank is organized as follows:



Corporate Governance (continued)

BOARD COMMITTEES

Consistent with the industry's best practice, the Board has established three committees with defined roles and responsibilities. The standing committees of the Board are the Executive Committee, the Audit Committee and the Remuneration Committee.

Executive Committee

Has delegated authority within the overall Board authority. Provides direction to the executive management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit and market risks, strategy review and recommendation to the Board.

Audit Committee

Has a responsibility to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also, acts as a liaison between the external auditors and the Board and between the regulators and the Board.

Remuneration Committee

The role is to provide a formal and transparent procedure for developing a compensation policy for the Chief Executive Officer, senior management and rest of employees; ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employees. The Committee approves policies covering hiring, compensation and training. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives, to attract, motivate and retain key employees.

Since ancient times, the date palm tree is known for Bedouins in the deserts as a source of Nutrition. One of the oldest cultivated trees, it is said that the ancient Egyptians used date palm leaves to symbolize longevity, fertility and utilize it in their medicine and daily life use. In the Gulf region people used its trunk in building their house roofs and the leaves for basket weaving.

MANAGEMENT COMMITTEES

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy.

The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its primary role is the 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 up to delegate limit and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	TSC oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy for the Bank, to the CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.

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

Compliance
The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Stock Exchange, the Dubai Financial Market, the Emirates Securities & Commodities Authority including anti-money laundering, prudential and insider trading reporting.

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

Risk Management and Compliance

At Al Salam Bank-Bahrain we appreciate the fact that we are in the business of taking risks and our success is largely dependent on how efficiently we identify, measure, control and manage these risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel II Accord as a catalyst to the successful implementation of the pillars of risk management.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Bank against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Bank's risk appetite and ensuring earnings stability.

With this in mind, the Bank's establishment plan gave priority to the development of an effective and practical risk management framework and independent risk management and compliance function in line with best risk management practice locally and internationally, the requirements of the Central Bank of Bahrain and the Basel II Accord.

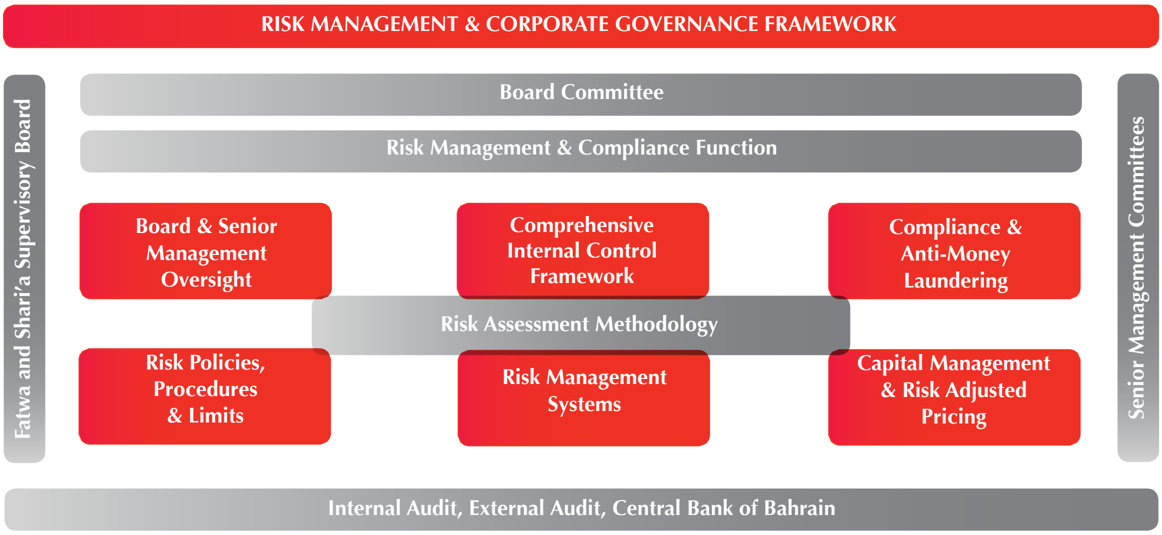
RISK MANAGEMENT FRAMEWORK

The risk management framework defines the risk culture of Al Salam Bank – Bahrain and sets the tone throughout the Bank to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Bank's key risk management principles covering credit, market, operational, strategic and reputation risks, the role and responsibilities of the Board, Risk Management group and Senior Management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Bank's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic control risk self assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives



CAPITAL MANAGEMENT

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving Risk Management, Finance and Business groups.

CORPORATE GOVERNANCE

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 32 to 35.

RISKS OWNERSHIP

The implementation of the risk management framework bank-wide is the responsibility of the Risk Management & Compliance Departments. Ownership of the various risks across the Bank lies with the business and support Heads and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for accommodating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

Risk Management and Compliance *(continued)*

RISK MANAGEMENT AND COMPLIANCE ORGANIZATION

Al Salam Bank- Bahrain's Risk Management and Compliance Departments are under the supervision of an independent Chief Operating Officer with a direct reporting line to the Chief Executive Officer.

Board Approved Policies, Procedures and Limits

Credit Risk Management	Market Risk Management	Operational Risk Management	Capital Management	Compliance & Anti-Money Laundering
• Exposures and limits Monitoring • Portfolio Management • Timely Reporting to Risk Committee • Internal rating Methodology • Periodic Stress Testing and Scenario Analysis	• Positioning and Limits Monitoring • Risk Measurement Methodology • Timely reporting to ALCO	• Control Self Assessments • Key Risk Indicators Monitoring • Risk & Loss Events Database • IT Security Managements • Business Continuity Planning • Outsourcing Risk Management	• Basel II Compliance • Risk Adjusted Pricing • Reporting to Board Executive Committee • Scenario Analysis	• Compliance Monitoring • Anti-money Laundering control • Training and Awareness • AML System Controls

COMPLIANCE & ANTI-MONEY LAUNDERING UNIT

The Bank has established an independent and focused unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading.

In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank - Bahrain through it's Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively.

The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF 40 + 9 recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Stock Exchange.

The date fruit of the tree is a great source of iron, potassium, calcium, magnesium, sulphur, copper and phosphorous. Dates are also rich in natural fibers and contain many vitamins such as thiamine, riboflavin, biotin, folic and ascorbic acid. Dates are used to make syrups, jams, ice creams, soft drinks and a host of other products.

Corporate Social Responsibility

Since its inception, social responsibility formed a priority for Al Salam Bank–Bahrain. The Bank adopts a very balanced policy to contribute to the social and economic well-being of the communities in which it operates. The Bank focused on several educational initiatives such as the donations towards the Crown Prince International Scholarship Program and to the Royal Charity Organization in support of university scholarships for distinguished students, as well as funding "Al Salam Center for Financial Studies" at the University of Bahrain.

Education is not the only area the Bank looks into, it also considers the social aspects of the Bahraini society where the Bank can be of an added value to bond the local community. This year, the Bank decided to give charitable organizations gift vouchers on Ramadan's eve to needy & poor. It also supported Al Hidaya Center in their community awareness campaign and funded Bahrain Student Funds Foundation in addition to financing two small projects at Asma School.

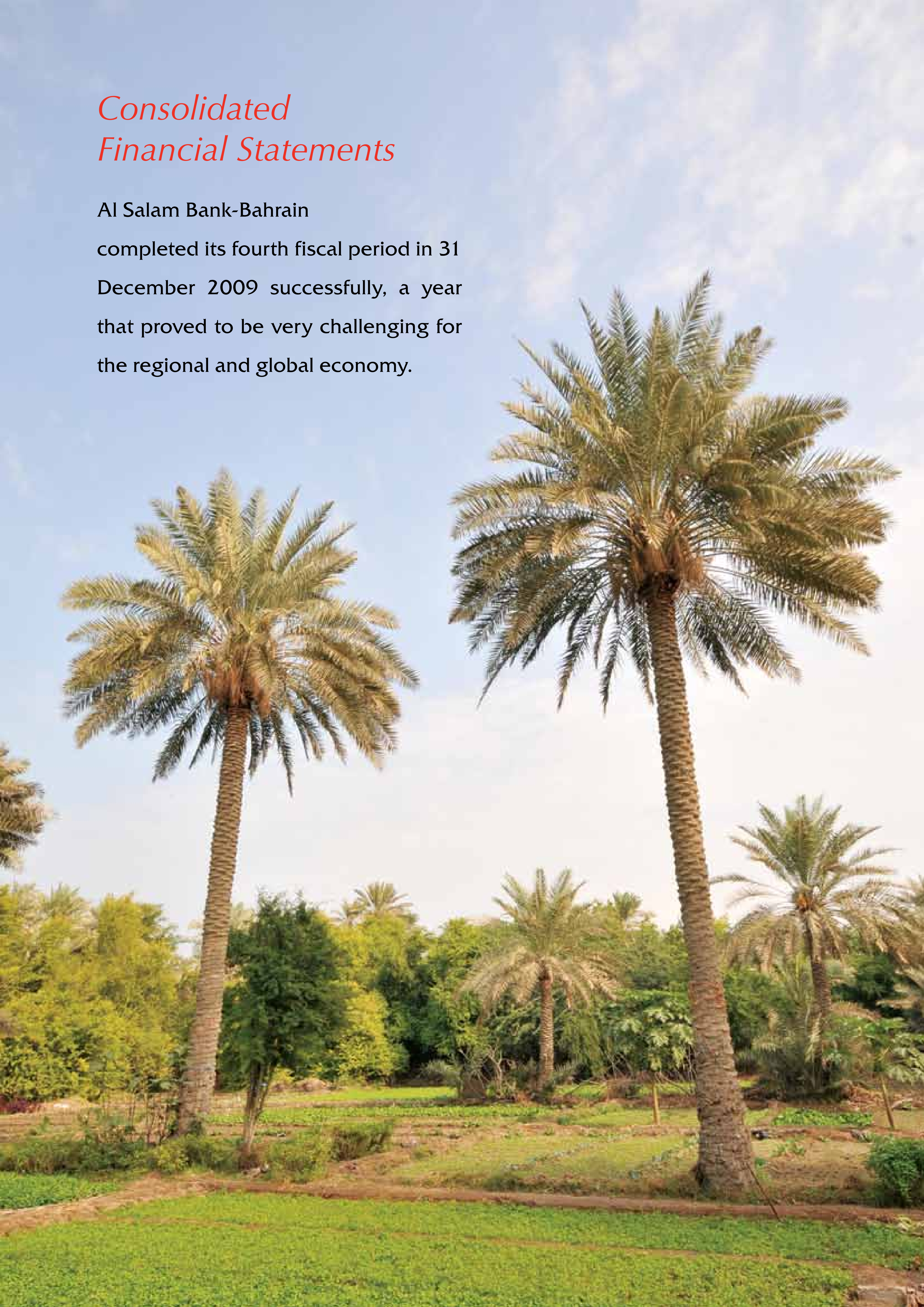
The human side has never been neglected by the Bank for it believes in human capital value. In this regard the Bank sponsored the medical treatment of several patients and donated to several social organizations such as the Friendship Society for the Blind, the Bahrain Society for Children with Behavioral Difficulties and Um Al-Darda Centre.

Al Salam Bank adopts a policy that supports training and employment. Bahrainis accounted for 82.4% of all employees at the end of 2009. Also in 2009, the Bank carried out its Summer Internship Program, for the third consecutive year, with more than 30 Bahraini university students who were enrolled into the Bank's training plan aimed at enhancing students' knowledge of Islamic banking industry.

In addition, the Directors have recommended the allocation of BD 100,000 in charitable donation to aid various aspects of the social activities to enhance the quality of life for everyone, through its support for charitable, educational, medical, scientific, cultural, social, sporting and environmental organizations.

Consolidated Financial Statements

Al Salam Bank-Bahrain completed its fourth fiscal period in 31 December 2009 successfully, a year that proved to be very challenging for the regional and global economy.



Fatwa & Shari'a Supervisory Board Report to the Shareholders

for the Financial Year Ended 31 December 2009

The Fatwa and Shari'a Supervisory Board ("the Board") has reviewed the transactions entered into by the Bank during the year. The Board had a look at the balance sheet, the income statement, and the trial balance. The Board has arranged a meeting with the management of the Bank and presented to it its annual report as follows:

Recent studies have shown that people who consume dates on a regular basis show an extremely low incidence rate of cancer and heart disease. Some of the medicinal uses include the treatment of bronchitis, tumors, hemorrhoids, poisonous bites, night blindness, skin allergies, anxiety, depression and many others.

First:

1- The Board has supervised the Banks activities and transactions during the year. The Board had played its role in guiding various departments to the adherence to the Principles of Shari'a and the pronouncement of the Shari'a Fatwa and Supervisory Board in respect to these activities and transactions. The Board held, for this purpose, several meetings with the Bank's management. The Board is hereby emphasizing the Bank's management utmost keenness to observe the Rules and Principles of Shari'a and pronouncement of the Fatwa and Shari'a Supervisory Board.

2- The Board has examined the transactions that were presented to it during the year, and approved contracts and documents relating to these transactions. The Board has responded to questions and queries raised in respect to these transactions, and issued appropriate Fatwas and pronouncements. These decisions have been circulated to the concerned department for execution.

Second:

The Board has reviewed a sample of contracts and agreements that were presented to it and requested the management to fully comply with these contracts and agreements.

Third: Consolidated Financial Statements:

The Board has reviewed the consolidated financial statements of the Bank and all relevant notes attached thereto and clarifications complementary to it, after which the Board made its observations and recommendation.

The view of the Board is as follows:

1- In line with the available information and disclosures that are presented by the Bank's management, the consolidated financial statements reviewed by the Board represent the Bank's assets and revenues. The accuracy of the information and data provided are the responsibility of the Bank's management.

2- The Bank's management stated that the Bank received majority of deposits on the basis of Wakala contract; the clients are informed of the expected profit rate and the Bank holds one general account for these deposits. It is also explained that the Bank received limited amount of savings account deposits for investment on the basis of Mudaraba which are comingled with the funds of shareholders in a common pool. The Board has advised that the Bank expands its activities of receiving fixed-term deposits on Mudaraba basis in line with the practice in other Islamic banks.

The Board believes that the consolidated financial statements, the income statement and the distribution of profits between depositors and shareholders had been prepared on this basis.

Fourth: Zakah:

Since the Articles of Association of the Bank did not require the Bank to pay Zakah on behalf of the Shareholders, the Board has calculated the Zakah due to shareholders which is to be communicated to the shareholders accordingly.

The Board is hereby emphasizing that the responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank fall on the Bank's management. The Board confirms that the executed transactions that are submitted by the management of the Bank for the Board's review during the year are generally in compliance with Principles and Rules of Shari'a. The management has shown interest and willingness to execute the recommendation of the Board.

Dr. Hussein Hamed Hassan
Chairman

Dr. Ali Al Qura Daghi
Member

Dr. Mohammed Zoeir
Member & Secretary to the Board

Shaikh Adnan Al Qattan
Member

ERNST & YOUNG

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C.R. No. 6700

Independent Auditors' Report to the Shareholders of Al Salam Bank-Bahrain B.S.C.

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ("the Bank") and its subsidiary (together "the Group") as of 31 December 2009, and the related consolidated statements of income, comprehensive 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.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated 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.

Auditors' Responsibility

We conducted our audit in accordance with both International Standards on Auditing and 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated 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 Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Other Regulatory Matters

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

Ernst & Young

15 February 2010
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

31 December 2009

	Note	***31 December 2009 BD***	*31 December 2008 BD*
ASSETS			
Cash and balances with Central Bank of Bahrain	5	**126,739,202**	83,533,981
Central Bank of Bahrain Sukuk		**32,907,875**	31,095,000
Murabaha receivables from banks	6	**149,303,782**	87,167,449
Corporate Sukuk		**16,949,546**	-
Murabaha and Mudaraba receivables	7	**87,273,825**	72,483,745
Ijarah Muntahia Bittamleek	8	**46,314,651**	41,530,784
Musharaka financing		**5,384,369**	-
Assets under conversion	9	**98,305,000**	-
Non-trading investments	10	**184,679,822**	116,929,500
Investment in an associate	11	**7,659,055**	8,011,913
Investment property		**1,177,528**	1,177,528
Receivables and prepayments	12	**26,902,192**	21,032,829
Premises and equipment		**2,337,436**	2,583,796
Assets held-for-sale		**-**	88,934,033
TOTAL ASSETS		**785,934,283**	554,480,558
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**89,397,722**	32,880,685
Wakala from non-banks		**317,369,585**	289,004,770
Customers' current accounts		**32,699,944**	42,985,844
Liabilities under conversion	9	**120,402,000**	-
Other liabilities	13	**14,877,262**	10,755,559
TOTAL LIABILITIES		**574,746,513**	375,626,858
UNRESTRICTED INVESTMENT ACCOUNTS	14	**9,409,467**	6,370,219

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Financial Position (continued)

31 December 2009

	Note	31 December 2009 BD	31 December 2008 BD
EQUITY			
Share capital	15	**142,577,508**	120,000,000
Reserves and retained earnings	15	**41,356,388**	39,660,956
Proposed appropriations	15	**14,257,750**	12,822,525
Total equity attributable to shareholders of the Bank		**198,191,646**	172,483,481
Non-controlling interest		**3,586,657**	-
TOTAL EQUITY		**201,778,303**	172,483,481
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**785,934,283**	554,480,558

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 15 February 2010.

Mohamed Ali Rashid Alabbar
Chairman

Yousif Taqi
Director & Chief Executive Officer

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December 2009

	31 December 2009 BD	31 December 2008 BD
OPERATING INCOME		
Income from financing contracts	**16,710,523**	14,087,135
Gains on disposal of investments	**11,781,651**	30,266,556
Gains on investments designated as fair value through profit or loss	**5,772,270**	5,259,691
Other operating income (Note 16)	**911,486**	2,300,596
	35,175,930	51,913,978
Less: Profit paid and payable on Murabaha and Wakala from banks	**(1,118,975)**	(2,489,667)
Less: Profit on Wakala from non-banks	**(13,928,052)**	(9,279,138)
Less: Profit on unrestricted investment accounts	**(155,520)**	(219,939)
Less: Depreciation on Ijarah Muntahia Bittamleek (Note 8)	**(4,037,647)**	(2,323,976)
TOTAL OPERATING INCOME	**15,935,736**	37,601,258
OPERATING EXPENSES		
Staff costs	**5,130,940**	6,854,616
Premises and equipment cost	**723,322**	582,745
Depreciation	**1,009,690**	902,526
Other operating expenses	**2,853,219**	3,438,451
Total operating expenses	**9,717,171**	11,778,338
PROFIT BEFORE RESULTS OF SUBSIDIARY AND ASSOCIATE	**6,218,565**	25,822,920
Gain arising on acquisition of a subsidiary (Note 3)	**7,996,039**	-
Share of loss from an associate (Note 11)	**(254,224)**	(280,239)
Post acquisition profit from the subsidiary	**21,000**	-
Share of Shari'a prohibited income contributed to charity	**(18,965)**	-
NET PROFIT FOR THE YEAR	**13,962,415**	25,542,681
Attributable to:		
Equity holders of the Bank	**13,960,380**	25,542,681
Non-controlling interest	**2,035**	-
	13,962,415	25,542,681
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**1,300,825,581**	1,200,000,000
BASIC AND DILUTED EARNINGS PER SHARE (FILS)	**10.7**	21.3

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	31 December 2009 BD	*31 December 2008 BD*
NET PROFIT FOR THE YEAR	**13,962,415**	25,542,681
Other comprehensive income:		
Net change in fair value	**(367,968)**	-
Exchange differences on investment in an associate	**(98,634)**	99,010
Other comprehensive income for the year	**(466,602)**	99,010
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**13,495,813**	25,641,691
Attributable to:		
Equity holders of the Bank	**13,480,309**	25,641,691
Non-controlling interest	**15,504**	-
	13,495,813	25,641,691

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	31 December 2009 BD	31 December 2008 BD
OPERATING ACTIVITIES		
Net profit for the year	**13,962,415**	25,542,681
Adjustments:		
Depreciation	**1,009,690**	902,526
Unrealised (gains) / losses on investments designated as fair value through profit or loss	**(5,772,270)**	2,050,309
Share of loss from an associate	**254,224**	280,239
Operating income before changes in operating assets and liabilities	**9,454,059**	28,775,755
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(4,486,000)**	(7,241,000)
Central Bank of Bahrain Sukuk	**(1,812,875)**	(10,715,000)
Murabaha receivables from banks with original maturities of 90 days or more	**1,497,724**	(1,240,065)
Corporate Sukuk	**(17,456,513)**	-
Murabaha and Mudaraba receivables	**(14,790,080)**	(39,842,146)
Ijarah Muntahia Bittamleek	**(4,783,867)**	(31,094,920)
Musharaka financing	**(5,384,369)**	-
Assets under conversion	**9,030,000**	-
Non-trading investments, net	**(1,208,099)**	(56,244,113)
Receivables and prepayments	**(12,472,402)**	(10,527,784)
Assets held-for-sale	**28,164,080**	(79,910,033)
Murabaha and wakala payables to banks	**56,517,037**	(64,102,356)
Wakala from non-banks	**28,364,815**	182,096,061
Customers' current accounts	**(10,285,900)**	37,297,159
Liabilities under conversion	**(6,262,000)**	-
Other liabilities	**(459,787)**	1,250,688
Net cash from (used in) operating activities	**53,625,823**	(51,497,754)

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows *(continued)*

Year ended 31 December 2009

	31 December 2009 BD	*31 December 2008 BD*
INVESTING ACTIVITIES		
Cash flow arising on acquisition of a subsidiary	**58,092,000**	-
Purchase of premises and equipment	**(265,331)**	(507,070)
Net cash from (used in) investing activities	**57,826,669**	(507,070)
FINANCING ACTIVITIES		
Unrestricted investment accounts	**3,039,248**	(13,399,366)
Share issue expenses	**(136,427)**	-
Dividends	**(12,000,000)**	(12,000,000)
Net movement in non-controlling interests	**(2,035)**	-
Net cash used in financing activities	**(9,099,214)**	(25,399,366)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**102,353,278**	(77,404,190)
Cash and cash equivalents at 1 January	**156,204,000**	233,608,190
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**258,557,278**	156,204,000
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain (Note 5)	**104,616,277**	67,263,285
Balances with other banks (Note 5)	**4,755,925**	3,389,696
Murabaha receivables from banks with original maturities of less than 90 days	**149,185,076**	85,551,019
	258,557,278	156,204,000

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

	Attributable to equity holders of the Bank										
	Share capital **BD**	*Statutory reserve* **BD**	*Retained earnings* **BD**	*Investment reserve* **BD**	*Changes in fair value* **BD**	*Foreign exchange translation reserve* **BD**	*Share premium reserve* **BD**	*Proposed appropriations* **BD**	*Total* **BD**	*Non-controlling interest* **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	-	159,470,877
Total comprehensive income for the year	-	-	25,542,681	-	-	99,010	-	-	25,641,691	-	25,641,691
Zakah on 2008 earnings	-	-	(822,525)	-	-	-	-	822,525	-	-	-
Charitable donations	-	-	(100,000)	-	-	-	-	-	(100,000)	-	(100,000)
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)	-	(529,087)
Zakah contribution	-	-	-	-	-	-	-	-	-	-	-
Dividends paid for 2007	-	-	(12,000,000)	-	-	-	-	-	(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	-	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	-	172,483,481
Non-controlling interest arising on acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	**3,571,153**	**3,571,153**
Total comprehensive income for the year											
Net profit for the year	-	-	13,960,380	-	-	-	-	-	13,960,380	2,035	13,962,415
Other Comprehensive income:											
Changes on investment in an associate	-	-	-	-	-	(98,634)	-	-	(98,634)	-	(98,634)
Net change in fair value	-	-	-	-	(381,437)	-	-	-	(381,437)	13,469	(367,968)
Total comprehensive income - 2009	**-**	**-**	**13,960,380**	**-**	**(381,437)**	**(98,634)**	**-**	**-**	**13,480,309**	**15,504**	**13,495,813**
	120,000,000	**6,514,137**	**26,535,458**	**20,472,731**	**(381,437)**	**376**	**-**	**12,822,525**	**185,963,790**	**15,504**	**185,979,294**
Transfer to investment reserve	-	-	(5,772,270)	5,772,270	-	-	-	-	-	-	-
Transfer to statutory reserve	-	1,396,038	(1,396,038)	-	-	-	-	-	-	-	-
Zakah paid	-	-	-	-	-	-	-	(822,525)	(822,525)	-	(822,525)
Charitable donations	-	-	(100,000)	-	-	-	-	-	(100,000)	-	(100,000)
Dividends paid for 2008	-	-	-	-	-	-	-	(12,000,000)	(12,000,000)	-	(12,000,000)
Proposed dividends for 2009 (Note 15.4)	-	-	(14,257,750)	-	-	-	-	14,257,750	-	-	-
Shares issued (Notes 3 and 15.1)	22,577,508	-	-	-	-	-	2,709,300	-	25,286,808	-	25,286,808
Share issue expenses	-	-	-	-	-	-	(136,427)	-	(136,427)	-	(136,427)
Balance at 31 December 2009	**142,577,508**	**7,910,175**	**5,009,400**	**26,245,001**	**(381,437)**	**376**	**2,572,873**	**14,257,750**	**198,191,646**	**3,586,657**	**201,778,303**

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2009

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The parent company, 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 ("the CBB") and has an Islamic retail banking license 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.

During the year, the Bank acquired a 90.31% stake in Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank in the Kingdom of Bahrain. BSB operates under a retail banking license issued by the Central Bank of Bahrain. BSB has applied for an Islamic retail banking license with the CBB and is awaiting approval. Subsequent to acquisition by the Bank, BSB has discontinued new conventional activities and the conversion into a fully compliant Islamic operations is in progress.

The Bank and its subsidiary BSB (together known as "the Group") operate through eight retail branches in the Kingdom of Bahrain. The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include accepting money market placements, 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 consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale investments and investment properties. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group. Investment in Al Salam Bank-Algeria is equity accounted as per IAS 28, Investment in Associates (Note 11).

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

Statement of compliance

The consolidated financial statements of the Group 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 the Central Bank of Bahrain and Financial Institutions Law. In accordance with AAOIFI, for matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 22.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the year ended 31 December 2009. The financial statements of the Bank's subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies. Non Shari'a compliant assets and liabilities of the subsidiary are consolidated as set out in Note 9.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of gaining control over the subsidiary.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated 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 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. In addition, the Group 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 date of the statement of financial position, 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:

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment losses on financial contracts

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated 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 Group 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 Group, of the financial contracts since they were 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 private equity and real estate investments

Valuation of above 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;
- present value of expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial contracts

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Corporate sukuk

These are quoted securities and classified as available-for-sale. These are recorded at the amortised cost and remeasured at fair value. Changes in fair value are recognized in the other comprehensive income until the investment is derecognised or the investment is determined to be impaired, upon which the cumulative fair value is transferred to consolidated income statement.

c) Murabaha and Mudaraba receivables

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

d) 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 term.

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 short of either period of the lease or economic life of the asset.

e) Musharaka

These are initially stated at the fair value of the consideration given and subsequently remeasured at amortised cost less provision for impairment in value, if any.

f) Assets and liabilities under conversion

These represent assets and liabilities of BSB which are under conversion to Shari'a compliant products. These are initially measured at fair value at the date of acquisition and the subsequent measurement is as follows:

Assets under conversion:

Due from Banks and Loans and advances to customers:

At amortised cost less any amounts written off and provision for impairment.

Investments:

These are classified as available-for-sale investments and are fair valued based on criteria set out in Note 2.3 g. Any changes in fair values subsequent to acquisition date are recognized in other comprehensive income.

Liabilities under conversion:

These are remeasured at amortised cost.

g) 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 consolidated income statement.

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in the other comprehensive income 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 consolidated income statement.

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 Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates.

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 consolidated income statement.

h) Investment reserve

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

i) Investment in an associate

The Group's investments in its associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under IAS 28, Investments in associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investment in an associate (continued)

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group 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 consolidated income statement reflects the Group's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group 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 Group 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 consolidated income statement.

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

Foreign exchange translation gains/losses arising out of the above investment in the associate are included in the other comprehensive income.

j) 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 consolidated 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.

k) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. 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 equipment	3 to 5 years
- Motor vehicle	5 years
- Leasehold Improvements	Over the lease period

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Subsidiaries acquired with a view to sell

A subsidiary 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 consolidated income statement 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.

m) Business Combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Gain on business combination, being the excess of the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of business acquisition is recognised as gain in the consolidated statement of income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

n) Impairment and uncollectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment and uncollectability of financial assets (continued)

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;

(ii) for assets carried at fair value, impairment is the difference between cost and fair value; and

(iii) 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 assets where there is a measurable decrease in estimated future cash flows.

o) Offsetting

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

p) Provisions

Provisions are recognised when the Group has 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.

q) Employees' end of service benefits

The Group 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 Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

r) Revenue recognition

Murabaha

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a straight-line basis. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Corporate sukuk

Income on Corporate sukuk is recognized on a time-proportionate basis based on underlying profit rate of the sukuk. Accrual of income is suspended when the Group 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)

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

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka
Income on Musharaka is recognized when the right to receive payment is established or on distributions.

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

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement 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 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 valuation by independent external valuers or based on recent arm's length market transactions.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Revenue recognition (continued)

Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar 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 Group using current profit rates for investments with similar terms and risk characteristics.

s) 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 statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. 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” and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as “fair value through profit or loss” are directly recognised in the consolidated income statement.

t) Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group purchases or sells the asset.

u) Derecognition of 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 where:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) 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 source 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 consolidated statement of income.

w) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not shown in the consolidated statement of financial position.

x) 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.

y) Unrestricted investment account holders (URIA)

All unrestricted investment accounts are carried at capital received plus profit earned less amounts paid. Income to unrestricted investment account holders is allocated, net of Mudarib fees, on the basis of their average daily balances in proportion to shareholders' daily average balances.

z) Zakah

In accordance with the revised Articles of Association of the Bank, the responsibility to pay Zakah is on the shareholders of the Bank.

aa) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Central Bank of Bahrain and Murabaha receivables from banks with maturities of less than 90 days from the date of acquisition.

3 BUSINESS COMBINATION

During the year, the Bank made an offer to acquire up to 100% of the issued and paid up shares of Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank incorporated in the Kingdom of Bahrain, at an exchange ratio of one new share of the Bank for every two shares of BSB. The proposed acquisition through share exchange was approved by the shareholders of the Bank in their Extraordinary General Assembly Meeting held on 4 May 2009. The Bank acquired 90.31% stake in BSB and issued 225,775,075 ASBB new shares (Note 15.1). On 28 October 2009, the Board of BSB was reconstituted with three out of the five Board members of BSB representing ASBB gaining effective control over BSB.

The fair value of the identifiable assets and liabilities of BSB as of 28 October 2009 and the gain arising out of the acquisition are as follows:

	Fair value BD	*Carrying value BD*
ASSETS ACQUIRED		
Cash and balances at the Central Bank of Bahrain	**58,092,000**	**58,092,000**
Due from banks and financial institutions	**5,680,000**	**5,680,000**
Loans and advances to customers	**72,281,000**	**79,857,000**
Non-trading investments	**28,870,000**	**30,310,000**
Other assets	**1,737,000**	**1,737,000**
Premises and equipment	**498,000**	**1,170,000**
	167,158,000	**176,846,000**
LESS: LIABILITIES ASSUMED		
Due to banks and financial institutions	**(22,452,000)**	**(22,452,000)**
Customers' deposits	**(103,811,000)**	**(103,811,000)**
Other liabilities	**(4,041,000)**	**(4,041,000)**
	(130,304,000)	**(130,304,000)**
FAIR VALUE OF NET ASSETS	**36,854,000**	**46,542,000**
GAIN ARISING ON ACQUISITION		
Fair value of identifiable net assets acquired		**36,854,000**
Fair value of the consideration given (Note 15.1)		**(25,286,808)**
Fair value of non-controlling interest in BSB		**(3,571,153)**
NEGATIVE GOODWILL		**7,996,039**

The net cash inflow arising on acquisition amounted to BD 58,092,000. Other items including the issue of shares have been treated as non-cash item for the purpose of consolidated statement of cash flows.

From the date of acquisition, BSB has contributed BD 18,965 to the net profit of the Bank. If the combination had taken place at the beginning of the year, the Bank's share of net loss for the year would have been BD 3,661,167.

4 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2009, 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 BD	*Available for sale BD*	*Financial assets at cost / amortised cost BD*	*Total BD*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	-	126,739,202	126,739,202
Central Bank of Bahrain Sukuk	-	-	32,907,875	32,907,875
Murabaha receivables from banks	-	-	149,303,782	149,303,782
Corporate Sukuk	-	16,949,546	-	16,949,546
Murabaha and Mudaraba receivables	-	-	87,273,825	87,273,825
Ijarah Muntahia Bittamleek	-	-	46,314,651	46,314,651
Musharaka financing	-	-	5,384,369	5,384,369
Assets under conversion	-	27,696,000	70,609,000	98,305,000
Non-trading investments	184,679,822	-	-	184,679,822
Receivables	-	-	26,213,797	26,213,797
	184,679,822	44,645,546	544,746,501	774,071,869

	Financial liabilities at fair value through profit or loss BD	*Available for sale BD*	*Financial liabilities at amortised cost BD*	*Total BD*
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS				
Murabaha and Wakala payables to banks	-	-	89,397,722	89,397,722
Wakala from non-banks	-	-	317,369,585	317,369,585
Customers' current accounts	-	-	32,699,944	32,699,944
Liabilities under conversion	-	-	120,402,000	120,402,000
Other liabilities	-	-	9,824,244	9,824,244
UNRESTRICTED INVESTMENT ACCOUNTS	-	-	9,409,467	9,409,467
	-	-	579,102,962	579,102,962

4 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (continued)

As at 31 December 2008, financial instruments were classified as follows:

	Financial assets at fair value through profit or loss BD	*Available for sale BD*	*Financial assets at cost / amortised cost BD*	*Total 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 receivables from banks	-	-	87,167,449	87,167,449
Murabaha and Mudaraba receivables	-	-	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 and Wakala payables to banks	-	-	32,880,685	32,880,685
Wakala from non-banks	-	-	289,004,770	289,004,770
Customers' current accounts	-	-	42,985,844	42,985,844
Other liabilities	-	-	2,614,170	2,614,170
UNRESTRICTED INVESTMENT ACCOUNTS	-	-	6,370,219	6,370,219
	-	-	373,855,688	373,855,688

5 CASH AND BALANCES WITH CENTRAL BANK OF BAHRAIN

	2009 BD	*2008 BD*
Mandatory reserve with Central Bank of Bahrain	**17,367,000**	12,881,000
Cash and other balances with Central Bank of Bahrain	**104,616,277**	67,263,285
Balances with other banks	**4,755,925**	3,389,696
	126,739,202	83,533,981

6 MURABAHA AND MUDARABA RECEIVABLES FROM BANKS

	Up to 3 months 2009 BD	Up to 3 months 2008 BD
GCC	**149,303,782**	82,376,388
Europe	**-**	4,791,061
	149,303,782	87,167,449

Deferred profits on Murabaha receivables from banks amounted to BD 57,697 (2008: BD 31,685).

7 MURABAHA AND MUDARABA RECEIVABLES

Murabaha and Mudaraba receivables are shown net of deferred profits of BD9,664,651 (2008: BD8,026,806).

8 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 at the end of the lease term upon the lesee fulfilling all obligations under the lease agreement.

Movements in Ijarah Muntahia Bittamleek assets are as follows:

	2009 BD	2008 BD
At 1 January	**41,530,784**	10,435,863
Additions during the year	**8,821,514**	33,418,897
Ijarah assets depreciation - net	**(4,037,647)**	(2,323,976)
At 31 December	**46,314,651**	41,530,784

8 IJARAH MUNTAHIA BITTAMLEEK (continued)

	2009 ***BD***	*2008* *BD*
The future minimum lease receivable in aggregate are as follows:		
Due within one year	**17,183,480**	9,915,774
Due in one to five years	**22,179,292**	26,505,879
Due after five years	**6,951,879**	5,109,131
	46,314,651	41,530,784

	2009 ***BD***	*2008* *BD*
Ijarah Muntahia Bittamleek are divided into the following asset classes:		
Aviation	**3,595,657**	3,836,702
Buildings	**42,718,994**	37,694,082
	46,314,651	41,530,784

The accumulated depreciation on assets subject to Ijarah amounted to BD 4,862,954 (31 December 2008: BD 3,464,322).

9 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BSB, a majority owned subsidiary of the Bank. At the balance sheet date, the conversion of the subsidiary into a fully compliant Islamic operations had just begun, accordingly these assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of these assets and liabilities under conversion are as follows:

	BD
Assets	
Due from banks and financial institutions	**6,839,000**
Loans and advances to customers	**63,770,000**
Non trading investments	**27,696,000**
	98,305,000
Liabilities	
Due to banks and financial institutions	**20,912,000**
Customers' deposits	**99,490,000**
	120,402,000

BSB has pledged certain investments with a financial institution having a carrying value of BD 22.5 million (2008: BD 25.8 million) as at 31 December 2009 against which there is no borrowing as at 31 December 2009 (2008: BD 9.4 million)

10 NON-TRADING INVESTMENTS

	2009 BD	2008 BD
Quoted	**4,341,940**	4,045,637
Unquoted based on valuation techniques:		
- Market observable input	**137,201,435**	97,509,445
- Non-market observable input	**43,136,447**	15,374,418
	184,679,822	116,929,500

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 Group's best estimate of the most appropriate model inputs.

11 INVESTMENT IN AN ASSOCIATE

The Group has investment in an associate, 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 Group's investment in ASBA:

	2009 BD	2008 BD
Associate's balance sheet:		
Total assets	**69,691,689**	39,514,495
Total liabilities	**20,318,137**	3,224,932
Net assets	**49,373,552**	36,289,563
Total revenue	**1,076,952**	9,090
Total expenses	**2,842,396**	1,410,287
Net loss for the year	**(1,765,444)**	(1,401,197)
Group's share of associate's loss:	**(254,224)**	(280,239)

12 RECEIVABLES AND PREPAYMENTS

	2009 BD	2008 BD
Profit receivable on Murabaha and Mudaraba	**1,250,769**	611,123
Rental receivable on Ijarah assets	**1,313,819**	278,838
Profit receivable on Sukuk	**263,221**	323,905
Prepayments	**688,395**	593,141
Other receivables	**23,385,988**	19,225,822
	26,902,192	21,032,829

Other receivables include BD 17,892,079 relating to sale of investments. At 31 December 2008, the other receivables included BD 8,515,761 relating to sale of investments and majority of which was received during 2009.

13 OTHER LIABILITIES

	2009 BD	2008 BD
Profit payable	**3,198,408**	2,614,170
Accounts payable and accruals	**7,274,517**	6,520,286
Dividends payable	**3,805,362**	1,504,598
End of service benefits	**598,975**	116,505
	14,877,262	10,755,559

14 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment account holders' funds are commingled with the Bank's funds and used to fund / invest in Islamic financing contracts. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve taking into consideration the relevant weightage, if any. Unrestricted investment accounts have no restriction on cash withdrawal. The Mudarib fee ranges between 40% and 50%.

The Mudarib's share of profit during the year amounted to BD 152,010 (2008: BD 214,970). The average profit rate for the URIA holders is about 1.25% (2008: 2.5%)

During the current year, an amount of BD 39,754,541 which was included in unrestricted investment reserve as of 31 December 2008, has been reclassified to customers' current account to conform with current year presentation. This has not impacted the previously reported net income and total equity.

15 EQUITY

	2009 BD	2008 BD
15.1 SHARE CAPITAL		
Authorised:		
2,000,000,000 (2008: 1,200,000,000) ordinary shares of BD 0.100 each	**200,000,000**	120,000,000
Issued and fully paid:		
Balance at the beginning of the year - 1,200,000,000 shares of BD 0.100 each	**120,000,000**	120,000,000
Issued during the year - 225,775,075 shares of BD 0.100 each (Note 3)	**22,577,508**	-
	142,577,508	120,000,000

Pursuant to a shareholders' resolution (Note 3), the Bank raised its authorised capital from BD 120 million to BD 200 million and issued 225,775,075 ordinary shares of ASBB to those shareholders of BSB who accepted the offer. At the offer closing date, the market price of the Bank's shares was BD 0.112 each. This resulted in proceeds of BD 25,286,808 from the new issue, including a share premium of BD 0.012 per share aggregating to BD 2,709,300.

15.2 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.

15.3 INVESTMENT RESERVE

During the year the net unrealized gain of BD 5,772,270 (2008: net unrealized loss of BD 2,050,309) was transferred from retained earnings to 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.

15 EQUITY (continued)

15.4 PROPOSED APPROPRIATIONS

The Board of Directors in its meeting on 15 February 2010 has resolved to recommend a cash dividend of 5 fils per share or 5% of the increased paid-up capital (2008: 10 fils per share) and a further 5 fils or 5% of the paid-up capital as bonus shares, representing one bonus share for every twenty shares held subject to approval at the forthcoming annual general meeting.

16 OTHER OPERATING INCOME

	2009 BD	*2008 BD*
Financing related fees and commissions	**233,536**	843,708
Transaction related fees	**50,901**	367,334
Fiduciary and other fees	**289,966**	840,504
Foreign exchange gains	**337,083**	249,050
	911,486	2,300,596

17 RELATED PARTY TRANSACTIONS

Related parties comprise major 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. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 31 December 2009 were as follows:

	2009			
	Associates and joint ventures BD	***Directors and related entities BD***	***Senior management BD***	***Total BD***
Assets:				
Murabaha and Mudaraba receivables	**9,540,472**	**28,061**	**67,378**	**9,635,911**
Ijarah Muntahia Bittamleek	**14,097,973**	**3,595,657**	**178,189**	**17,871,819**
Musharaka financing	**5,234,068**	**-**	**99,165**	**5,333,233**
Assets under conversion	**-**	**-**	**27,000**	**27,000**
Receivables and prepayments	**2,733,999**	**8,795**	**14,672**	**2,757,466**
Liabilities:				
Wakala from non-banks	**15,593,252**	**511,091**	**311,761**	**16,416,104**
Customers' current accounts	**7,012,381**	**257,252**	**35,253**	**7,304,886**
Liabilities under conversion	**-**	**-**	**1,017,000**	**1,017,000**
Unrestricted investment accounts	**116,178**	**65,428**	**61,771**	**243,377**
Commitments	**4,623,584**	**-**	**-**	**4,623,584**
Contingent liabilities	**11,402,034**	**55,792**	**-**	**11,457,826**

17 RELATED PARTY TRANSACTIONS (continued)

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

	2009			
	Associates and joint ventures BD	***Directors and related entities BD***	***Senior management BD***	***Total BD***
Income:				
Income from other Islamic financing contracts	**2,242,075**	**92,977**	**9,620**	**2,344,672**
Expenses:				
Profit paid on Wakala from non-banks	**281,460**	**33,515**	**14,197**	**329,172**
Share of profits on unrestricted investment accounts	**188**	**1,217**	**975**	**2,380**

	2008			
	Associates and joint ventures BD	*Directors and related entities BD*	*Senior management BD*	*Total BD*
Assets:				
Murabaha and Mudaraba receivables	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:				
Wakala 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 consolidated 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 16)	40,905	-	-	40,905
Expenses:				
Profit paid on Wakala from non-banks	966,272	3,828	29,269	999,369
Share of profits on unrestricted investment accounts	-	192	4,879	5,071

17 RELATED PARTY TRANSACTIONS (continued)

As of 31 December 2009, Murabaha and Mudaraba receivables and Ijarah Muntahia Bittamleek included BD 3,595,657 (2008: BD3,693,308) of facilities provided to directors and their associates which are past due and on which profit is not being recognised.

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 2009 amounted to BD 250,000 (31 December 2008: BD 350,000).

Compensation of key management personnel, consisting solely of short-term benefits, paid during the year was BD 2,182,000 (2008: BD 2,753,000).

18 CONTINGENT LIABILITIES AND COMMITMENTS

The Group has the following commitments:

	2009 BD	*2008 BD*
Contingent liabilities on behalf of customers		
Guarantees	**19,077,412**	13,261,042
Letters of credit	**1,674,596**	-
Acceptances	**409,000**	-
	21,161,008	13,261,042
Irrevocable Unutilised commitments		
Unutilised financing commitments	**13,473,354**	2,434,840
Unutilised non-funded commitments	**7,424,343**	-
Unutilised capital commitments	**5,681,007**	5,027,488
	26,578,704	7,462,328
	47,739,712	20,723,370

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

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.

18 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating lease commitment - Group as lessee

The Group has entered into a five-year operating lease for its premises. Future minimal rentals payable under the non-cancellable lease are as follows:

	2009 BD	2008 BD
Within 1 year	**664,515**	451,095
After one year but not more than five years	**85,435**	448,371
	749,950	899,466

19 RISK MANAGEMENT

19.1 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 subdivided into trading and non-trading risks. It is also subject to early repayment 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 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.

19 RISK MANAGEMENT (continued)

19.1 Introduction *(continued)*

Executive Committee

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

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group'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 the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

Asset and Liability Committee

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position 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 Group's financial position 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.

Board Audit Committee

The Audit Committee is appointed by the Board of Directors who are non-Executive Directors of the Bank. 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 Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit

Risk management processes throughout the Group are audited 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

The Group'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 Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

19 RISK MANAGEMENT (continued)

19.1 Introduction *(continued)*

Risk measurement and reporting systems (continued)

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.

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 Credit / 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 Group.

For all levels throughout the Group, 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 Chief Financial Officer and all other relevant members of the Group 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 Group's performance to developments affecting a particular industry or geographical location.

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

19 RISK MANAGEMENT (continued)

19.2 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control 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 Group 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 consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure 2009 BD***	*Gross maximum exposure 2008 BD*
ASSETS			
Balances with other banks		**4,755,925**	3,389,696
Murabaha receivables from banks	6	**149,303,782**	87,167,449
Corporate sukuk		**16,949,546**	-
Murabaha and Mudaraba receivables	7	**58,352,606**	52,058,745
Ijarah Muntahia Bittamleek	8	**42,341,351**	37,688,214
Musharaka financing		**5,384,369**	-
Assets under conversion	9	**77,972,000**	-
Receivables	12	**26,011,951**	20,115,783
Assets held-for-sale		**-**	88,934,033
Total		**381,071,530**	289,353,920
Contingent liabilities and commitments		**48,489,662**	7,462,328
Total credit risk exposure		**429,561,192**	296,816,248

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.

Type of credit risk

Various contracts entered into by the Bank comprise Murabaha receivables, Mudaraba investments, Musharaka receivables, 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:

19 RISK MANAGEMENT (continued)

19.2 CREDIT RISK (continued)

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 Balances with Banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2009				
	Neither past due nor impaired			***Past due or individually impaired***	
	'A' Rated BD	***'B' Rated BD***	***Unrated BD***	***BD***	***Total BD***
Balances with Banks	**4,402,197**	**106,333**	**247,395**	**-**	**4,755,925**
Murabaha receivables from banks	**93,228,373**	**11,465,654**	**44,609,755**	**-**	**149,303,782**
	97,630,570	**11,571,987**	**44,857,150**	**-**	**154,059,707**

	31 December 2008				
	Neither past due nor impaired			*Past due or individually impaired*	
	'A' Rated BD	*'B' Rated BD*	*Unrated BD*	*BD*	*Total BD*
Balances with Banks	3,175,883	165,353	48,460	-	3,389,696
Murabaha receivables from banks	60,638,666	7,540,000	18,988,783	-	87,167,449
	63,814,549	7,705,353	19,037,243	-	90,557,145

19 RISK MANAGEMENT (continued)

19.2 CREDIT RISK (continued)

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). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

b) The credit quality of Corporate sukuk, Murabaha and Mudaraba receivables, Ijarah Muntahia Bittamleek, Musharaka financing, Assets under conversion and Receivables that are subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2009				
	Neither past due nor impaired				
	Satisfactory BD	***Watch List BD***	***Substandard but not impaired BD***	***Past due but not impaired BD***	***Total BD***
Corporate sukuk	**16,949,546**	**-**	**-**	**-**	**16,949,546**
Murabaha and Mudaraba receivables	**37,511,971**	**7,539,492**	**-**	**13,301,143**	**58,352,606**
Ijarah Muntahia Bittamleek	**31,646,790**	**-**	**3,960,000**	**6,734,561**	**42,341,351**
Musharaka financing	**5,384,369**	**-**	**-**	**-**	**5,384,369**
Assets under conversion	**77,972,000**	**-**	**-**	**-**	**77,972,000**
Receivables	**26,011,951**	**-**	**-**	**-**	**26,011,951**
	195,476,627	**7,539,492**	**3,960,000**	**20,035,704**	**227,011,823**

	31 December 2008				
	Neither past due nor impaired				
	Satisfactory BD	*Watch List BD*	*Substandard but not impaired BD*	*Past due but not impaired BD*	*Total BD*
Murabaha and Mudaraba receivables	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

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.

19 RISK MANAGEMENT (continued)

19.2 CREDIT RISK (continued)

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

	31 December 2009			
	0-30 days BD	**31-90 days BD**	**> 90 days BD**	**Total BD**
Murabaha and Mudaraba receivables	**1,740,965**	**4,609,596**	**6,950,582**	**13,301,143**
Ijarah Muntahia Bittamleek	**1,724,478**	**692,024**	**4,318,059**	**6,734,561**
	3,465,443	**5,301,620**	**11,268,641**	**20,035,704**

	31 December 2008			
	0-30 days BD	31-90 days BD	> 90 days BD	Total BD
Murabaha and Mudaraba receivables	-	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

All the past due but not impaired Murabaha and Mudaraba receivables and Ijarah financing are covered by collateral of BD 42,034,664 (2008: BD 8,901,056).

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 statement of financial position plus commitments to customers disclosed in Note 18 except capital commitments.

During the year BD 9,520,469 (2008: BD 2,350,000) of financing facilities to individuals were renegotiated. All renegotiated facilities are performing and are fully secured.

At 31 December 2009, the amount of credit exposure in excess of 10% of the Group's equity to individual counterparties was nil (2008: nil).

At 31 December 2009, impaired financial assets of the Group amounted to BD 59,387,000 (2008: Nil) against which provision of BD 47,507,000 (2008: Nil) was held.

19 RISK MANAGEMENT (continued)

19.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimized.

As at 31 December 2009, legal suits amounting to BD 1,681 thousand (2008: BD 1,661 thousand) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's financial position as the Group also has filed counter cases against these parties.

20 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 Group's performance to developments affecting a particular industry or geographic location. The Group 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***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, unrestricted investment accounts and equity*	*Commitments*
	2009 BD	***2009 BD***	***2009 BD***	*2008 BD*	*2008 BD*	*2008 BD*
Geographic region						
GCC	**718,880,971**	**560,808,591**	**32,549,873**	502,539,276	357,555,010	2,465,607
Arab World	**9,565,905**	**2,791,538**	**-**	9,917,696	4,978,221	-
Europe	**23,087,333**	**11,641,916**	**48,252**	6,106,964	6,856,091	-
Asia	**27,105,676**	**8,734,207**	**12,346,647**	32,222,098	12,600,551	2,278,578
America	**2,274,539**	**179,728**	**-**	1,709,064	7,204	-
Others	**5,019,859**	**-**	**3,544,890**	1,985,460	-	2,718,143
	785,934,283	**584,155,980**	**48,489,662**	554,480,558	381,997,077	7,462,328
Equity	**-**	**201,778,303**	**-**	-	172,483,481	-
	785,934,283	**785,934,283**	**48,489,662**	554,480,558	554,480,558	7,462,328

20 CONCENTRATIONS (continued)

	Assets	Liabilities, unrestricted investment accounts and equity	Contingent liabilities and Commit-ments	Assets	Liabilities, unrestricted investment accounts and equity	Commitments
	2009 BD	**2009 BD**	**2009 BD**	2008 BD	2008 BD	2008 BD
Industry sector						
Trading and manufacturing	**10,418,502**	**15,798,137**	**16,626,581**	12,752,030	423,602	48,789
Banks and financial institutions	**257,170,260**	**143,696,752**	**344,000**	109,199,534	72,547,160	-
Real estate	**188,081,853**	**60,406,242**	**23,331,597**	167,869,248	68,098,462	4,242,721
Aviation	**10,373,462**	**8,536**	**-**	5,090,915	1,025,554	-
Individuals	**45,768,760**	**206,897,595**	**1,726,150**	23,199,665	106,905,733	1,167,200
Government and public sector	**127,925,297**	**87,211,278**	**-**	135,204,195	97,537,011	1,218,851
Others	**146,196,149**	**70,137,440**	**6,461,334**	101,164,971	35,459,555	784,767
	785,934,283	**584,155,980**	**48,489,662**	554,480,558	381,997,077	7,462,328
Equity	**-**	**201,778,303**	**-**	-	172,483,481	-
	785,934,283	**785,934,283**	**48,489,662**	554,480,558	554,480,558	7,462,328

21 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 Group'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 Group.

21.1 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 Group's Investment Committee.

21 MARKET RISK (continued)

21.1 EQUITY PRICE RISK (continued)

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:

	2009			
	10% increase		***10% decrease***	
	Effect on net profit BD	***Effect on Comprehensive income BD***	***Effect on net profit BD***	***Effect on Comprehensive income BD***
Quoted:				
GCC	**434,194**	**172,700**	**(434,194)**	**(172,700)**
Unquoted	**18,033,788**	**1,514,600**	**(18,033,788)**	**(1,514,600)**

	2008			
	10% increase		*10% decrease*	
	Effect on net profit BD	*Effect on Comprehensive income BD*	*Effect on net profit BD*	*Effect on Comprehensive income BD*
Quoted:				
GCC	404,564	-	(404,564)	-
Unquoted	11,288,386	-	(11,288,386)	-

Assets under conversion (Note 9) include quoted equites of BD 1,727,000 (2008: Nil) and unquoted equites of BD 15,146,000 (2008: Nil). In determining the effect of price volatility on above, equity positions included in assets under conversion have been considered.

21.2 PROFIT RETURN RISK

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

The Group 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:

21 MARKET RISK (continued)

21.2 PROFIT RETURN RISK (continued)

	2009			
	Change in rate %	***Effect on net profit BD***	***Change in rate %***	***Effect on net profit BD***
US dollars	**0.25**	**179,609**	**(0.25)**	**(179,609)**
Bahraini dinars	**0.25**	**344,051**	**(0.25)**	**(344,051)**

	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)

In addition to profit rate bearing financing contracts considered in ariving at the effect on net profits, the assets under conversion includes BD 81,088,000 of financial assets and BD 120,001,000 of financial liabilities which are interest bearing. The Group is in the process of converting these into Shari'a compliant contracts. If all the interest bearing assets and liabilities were converted into Shari'a complaint contract on 1 January 2010, the change in profit rate by 0.25% would result in a profit or loss of BD 97,283.

21.3 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 Group's Asset Liability Committee to ensure positions are maintained within established limits.

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

	2009 BD	*2008 BD*
US Dollars	**10,402,462**	17,090,387
Saudi Riyals	**55,801,876**	57,553,210

21 MARKET RISK (continued)

21.3 CURRENCY RISK (continued)

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

	2009			
	Change in rate	***Effect on net profit***	***Change in rate***	***Effect on net profit***
	%	***BD***	***%***	***BD***
US dollars to Bahraini dinars	**1**	**104,025**	**(1)**	**(104,025)**
Saudi Riyals to Bahraini dinars	**1**	**558,019**	**(1)**	**(558,019)**

	2008			
Saudi Riyals to Bahraini dinar	*Change in rate*	*Effect on net profit*	*Change in rate*	*Effect on net profit*
	%	*BD*	*%*	*BD*
US dollars to Bahraini dinars	1	170,904	(1)	(170,904)
Saudi Riyals to Bahraini dinars	1	575,532	(1)	(575,532)

22 LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 Group's Asset Liability Committee.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2009 and 2008:

	31 December 2009				
	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	**109,372,202**	**-**	**17,367,000**	**-**	**126,739,202**
Central Bank of Bahrain Sukuk	**-**	**32,907,875**	**-**	**-**	**32,907,875**
Murabaha receivables from banks	**149,303,782**	**-**	**-**	**-**	**149,303,782**
Corporate Sukuk	**-**	**-**	**16,949,546**	**-**	**16,949,546**
Murabaha and Mudaraba receivables	**20,096,505**	**14,665,487**	**52,511,833**	**-**	**87,273,825**
Ijarah Muntahia Bittamleek	**7,062,692**	**10,120,788**	**22,179,292**	**6,951,879**	**46,314,651**
Musharaka financing	**5,323**	**15,894**	**5,363,152**	**-**	**5,384,369**
Assets under conversion	**30,901,000**	**17,156,000**	**50,248,000**	**-**	**98,305,000**
Non-trading investments	**-**	**-**	**184,679,822**	**-**	**184,679,822**
Investment in an associate	**-**	**-**	**7,659,055**	**-**	**7,659,055**
Investment properties	**-**	**-**	**-**	**1,177,528**	**1,177,528**
Receivables and prepayments	**25,233,471**	**1,129,996**	**538,725**	**-**	**26,902,192**
Premises and equipment	**-**	**-**	**2,337,436**	**-**	**2,337,436**
	341,974,975	**75,996,040**	**359,833,861**	**8,129,407**	**785,934,283**
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha and Wakala payables to banks	**-**	**-**	**89,397,722**	**-**	**89,397,722**
Wakala from non-banks	**-**	**47,882,064**	**269,487,521**	**-**	**317,369,585**
Customers' current accounts	**32,699,944**	**-**	**-**	**-**	**32,699,944**
Liabilities under conversion	**87,810,000**	**14,120,000**	**18,472,000**	**-**	**120,402,000**
Other liabilities	**13,512,479**	**1,096,818**	**267,965**	**-**	**14,877,262**
Unrestricted investment accounts	**-**	**-**	**9,409,467**	**-**	**9,409,467**
	134,022,423	**63,098,882**	**387,034,675**	**-**	**584,155,980**

22 LIQUIDITY RISK (continued)

	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
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 receivables from banks	87,167,449	-	-	-	87,167,449
Murabaha and Mudaraba receivables	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 and Wakala payables to banks	-	-	32,880,685	-	32,880,685
Wakala from non-banks	-	97,980,280	191,024,490	-	289,004,770
Customers' current accounts	-	-	42,985,844	-	42,985,844
Other liabilities	10,182,013	573,360	186	-	10,755,559
Unrestricted investment accounts	-	-	6,370,219	-	6,370,219
	10,182,013	98,553,640	273,261,424	-	381,997,077

22 LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December, 2009 and 2008 based on contractual undiscounted repayment obligation:

	31 December 2009				
	On demand BD	Up to 3 months BD	3 months to 1 year BD	1 to 5 years BD	Total BD
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS COMMITMENTS AND CONTINGENT LIABILITIES					
Murabaha and Wakala payables to banks	-	89,397,722	-	-	89,397,722
Wakala from non-banks	-	250,849,368	47,882,064	18,638,153	317,369,585
Customers' current accounts	32,699,944	-	-	-	32,699,944
Liabilities under conversion	-	87,810,000	14,120,000	18,472,000	120,402,000
Unrestricted investment accounts	-	9,409,467	-	-	9,409,467
Unutilised financing commitments	13,749,000	-	3,052,062	4,096,635	20,897,697
Unutilised capital commitments	-	-	3,544,890	2,136,117	5,681,007
Contingent liabilities	19,119,412	538,000	1,503,596	-	21,161,008
Other Liabilities	-	9,592,243	435,818	598,975	10,627,036
Profit due on financing contracts	-	986,136	2,167,981	2,882,088	6,036,205
	65,568,356	448,582,936	72,706,411	46,823,968	633,681,671

	31 December 2008				
	On demand BD	Up to 3 months BD	3 months to 1 year BD	1 to 5 years BD	Total BD
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND COMMITMENTS					
Murabaha and Wakala payables to banks	-	32,880,685	-	-	32,880,685
Wakala from non-banks	-	218,957,897	68,928,893	1,117,980	289,004,770
Customers' current accounts	-	42,985,844	-	-	42,985,844
Unrestricted investment accounts	-	6,370,219	-	-	6,370,219
Unutilised financing commitments	-	-	2,434,840	-	2,434,840
Unutilised capital 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

23 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group 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 Group 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 2009 was as follows:

	31 December 2009				
	Banking BD	***Treasury BD***	***Investments BD***	***Capital BD***	***Total BD***
Operating income	**7,887,189**	**2,499,936**	**5,583,228**	**7,709,233**	**23,679,586**
Segment result	**4,101,065**	**1,492,838**	**2,709,240**	**5,659,272**	**13,962,415**
Other information					
Segment assets	**208,248,481**	**336,170,782**	**171,962,098**	**69,552,922**	**785,934,283**
Segment liabilities, and equity	**471,408,521**	**103,403,261**	**984,408**	**210,138,093**	**785,934,283**

	31 December 2008				
	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

23 SEGMENT INFORMATION (continued)

Secondary segment information

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

24 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 60,706,388 (2008: BD 25,000,000). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

25 SHARI'A SUPERVISORY BOARD

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

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their carrying values as at 31 December 2009 and 2008.

27 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

As explained in Note 3, the Bank acquired a 90.31% stake in BSB. Effective 28 October 2009, the Bank established control over the subsidiary. Since the subsidiary is still in the process of being converted into an Islamic bank, the share of post acquisition net profit of BD 18,965 derived from non-Shari'a compliant transactions, has been set aside for charity.

In addition to the above, the Bank received income totaling BD 55,724 (2008: BD 2,767) from conventional financial institutions on current account balances during the year. These funds were held as payable to charity as they are in the nature of Shari'a prohibited income.

28 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to the good faith qard fund which is used for charitable purposes. During the year the Group paid an amount of BD 914,983 (2008: BD 536,084) on account of charitable donations.

29 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2009 has been determined by the Shari'a supervisory board as BD 571,532 or 0.40 fils per share. In 2008, a sum of BD 822,525 was contributed by the Bank with an obligation of BD 615,249 or 0.51 fils per share payable by the shareholders.

30 CAPITAL ADEQUACY

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Grouping Supervision and adopted by the Central Bank of Bahrain. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the years ended 31 December 2009 and 31 December 2008.

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

	2009 BD	*2008 BD*
Capital base (Tier 1)	**179,564,000**	107,989,000
Credit risk weighted exposures	**555,389,000**	393,251,000
Market risk weighted exposures	**2,950,000**	3,213,000
Operational risk weighted exposures	**68,803,000**	40,410,000
Total risk weighted exposure	**627,142,000**	436,874,000
Capital adequacy	**28.6%**	24.7%
Minimum requirement	**12.0%**	12.0%