

18. FIXED ASSETS

	Land		Buildings		Furniture and equipment		Total	
	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000
Cost	761	2,024	23,917	63,609	9,055	24,083	33,733	89,716
Accumulated depreciation	-	-	10,498	27,920	6,164	16,394	16,662	44,314
Net book value at								
31 December 2007	761	2,024	13,419	35,689	2,891	7,689	17,071	45,402
Net book value at								
31 December 2006	761	2,024	13,369	35,556	2,972	7,904	17,102	45,484

The depreciation charge for the year amounted to BD 1.53 million (US\$ 4.07 million) [2006 :BD 1.52 million (US \$ 4.04 million)].

19. SHARE CAPITAL

	2007		2006	
	BD '000	US\$ '000	BD '000	US\$ '000
Authorised share capital				
1,000,000,000 shares of 100 fils each	100,000	265,957	100,000	265,957
Issued and fully paid share capital*				
At 1 January: 540,000,000 shares of 100 fils each (2006: 540,000,000 shares of 100 fils each)	54,000	143,617	54,000	143,617
One for five bonus issue**	10,800	28,723	-	-
At 31 December: 648,000,000 shares of 100 fils each	64,800	172,340	54,000	143,617

* The Board of Directors has proposed to the shareholders an increase of BD 12.96 million in the issued and fully paid capital of the Bank to BD 77.76 million by the issue of bonus shares at the rate of one additional share for every five shares held. These shares will rank pari passu with all other shares for future dividends and distribution.

This bonus issue is proposed to be made through utilisation of BD 12.96 million from General Reserve.

** During 2007, a one-for-five bonus issue was made comprising 108,000,000 shares of 100 fils each by capitalisation of BD 10.8 million (US\$ 28.7 million) from General Reserve.

A distribution schedule of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	2007			2006		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	214,040,526	1,097	33.0%	178,367,091	1,072	33.0%
1% up to less than 5%	116,439,474	9	18.0%	97,032,909	9	18.0%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	317,520,000	1	49.0%	264,600,000	1	49.0%
50% and above	-	-	-	-	-	-
Total	648,000,000	1,107	100.0%	540,000,000	1,082	100.0%

49% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co which is 100% owned by the Government of Bahrain. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

For the year ended 31 December 2007

20. RESERVES

a) Statutory reserve

The reserve has been created in accordance with the Bahrain Commercial Companies Law 2001, which requires 50% of the issued share capital to be retained as statutory reserve. The reserve is not available for distribution except in circumstances as stipulated in the Bahrain Commercial Companies Law 2001 and following the approval of the Central Bank of Bahrain. The Board of Directors has proposed to the shareholders to appropriate BD 6.48 million from General Reserve to Statutory Reserve. The proposed increase in the Statutory Reserve results from the proposed increase in the share capital through bonus issue.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Revaluation reserve

The reserve was created to reflect the impact on equity on adopting International Accounting Standard 39 (IAS 39) at transition and the subsequent remeasuring of Available-for-Sale Securities portfolio at fair value. All unrealised gains or losses arising from remeasuring Available-for-Sale Securities portfolio at fair value are reflected in Revaluation Reserve. In the event of sale, disposal, collection or impairment of Available-for-Sale Securities, the cumulative gains or losses recognised in Revaluation Reserve with respect to such securities are included in the Income Statement for the period.

21. PROPOSED APPROPRIATIONS

Proposed appropriations have been disclosed as part of Equity. The appropriations for the year will be submitted for formal approval at the annual general meeting. The appropriations relating to the year 2006 were approved.

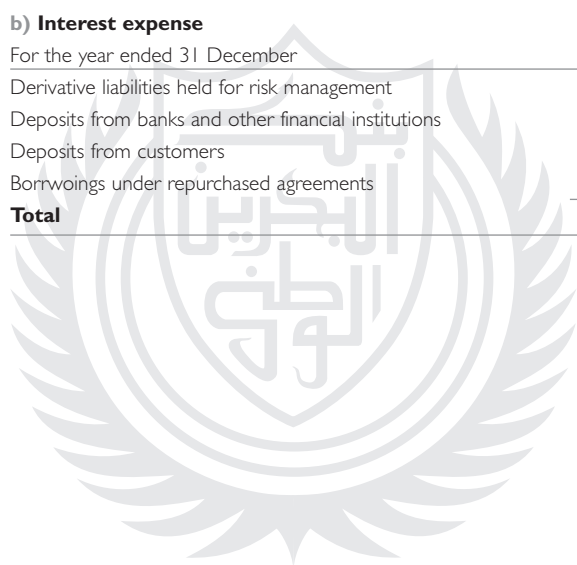
22. INTEREST INCOME / INTEREST EXPENSE

a) Interest income

	2007	2007	2006	2006
For the year ended 31 December	BD '000	US\$ '000	BD '000	US\$ '000
Derivative assets held for risk management	323	859	428	1,138
Treasury Bills	1,295	3,444	4,243	11,285
Placements with banks & financial institutions	18,708	49,755	14,521	38,620
Loans and advances to customers	56,404	150,011	47,546	126,452
Loans and advances to banks	6,186	16,452	5,077	13,503
Investment securities	16,324	43,415	11,567	30,763
Total	99,240	263,936	83,382	221,761

b) Interest expense

	2007	2007	2006	2006
For the year ended 31 December	BD '000	US\$ '000	BD '000	US\$ '000
Derivative liabilities held for risk management	2,521	6,705	1,358	3,612
Deposits from banks and other financial institutions	9,913	26,365	6,705	17,832
Deposits from customers	42,990	114,335	35,389	94,120
Borrowings under repurchased agreements	1,650	4,388	1,337	3,556
Total	57,074	151,793	44,789	119,120



23. OTHER INCOME

	2007	2007	2006	2006
For the year ended 31 December	BD '000	US\$ '000	BD '000	US\$ '000
a) Fees and commission income				
Fees and commission on loans and advances	4,210	11,197	2,805	7,460
Commission on sale of managed funds	712	1,894	670	1,782
Other fees and commission	5,421	14,417	4,586	12,197
Sub-total	10,343	27,508	8,061	21,439
b) Other operating income				
Profit/(loss) on trading securities	(7)	(19)	55	146
Profit on sale of available for sale securities	1,704	4,532	338	899
Profit on fair value through P/L investment securities	3,299	8,774	3,491	9,285
Share dividend income	3,368	8,957	2,872	7,638
Profit on exchange dealing and transactions	2,850	7,580	1,506	4,005
Profit/(loss) on derivatives	(72)	(191)	(52)	(138)
Other income	1,379	3,668	2,688	7,149
Sub-total	12,521	33,301	10,898	28,984
Total other income	22,864	60,809	18,959	50,423

24. STAFF EXPENSES

	2007	2007	2006	2006
For the year ended 31 December	BD '000	US\$ '000	BD '000	US\$ '000
Salaries and allowances	13,649	36,301	11,188	29,755
Social Security & Gratuity	2,293	6,098	1,277	3,396
Housing & other benefits	1,556	4,138	1,392	3,702
Others	145	386	186	495
Total	17,643	46,923	14,043	37,348

25. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2007	2007	2006	2006
As at 31 December	BD '000	US\$ '000	BD '000	US\$ '000
US Dollar (long position) - unhedged	313,728	834,383	303,864	808,149
UAE Dirhams (long position) - unhedged	104,136	276,957	2,524	6,713
Saudi Riyal (long position) - unhedged	47,837	127,226	3,952	10,511

The Bahraini dinar has a fixed rate of exchange against the US dollar:

26. CAPITAL COMMITMENTS

At 31 December 2007 commitments for capital expenditure amounted to BD 0.97 million (US\$ 2.58 million) [2006: BD 1.72 million (US\$ 4.57 million)].

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27. RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Managing Director and Chief Executive, the General Manager and persons directly reporting to either of them. Balances at the year end in regard to related parties and transactions during the year with related parties comprised the following:

Figures in BD '000	Majority shareholder		Directors		Key management personnel	
	2007	2006	2007	2006	2007	2006
As at 31 December						
Loans and advances	95,928	31,051	11,949	10,918	-	-
Treasury bills and bonds	65,140	124,001	-	-	-	-
Customers' deposits	32,927	20,583	18,311	17,085	6,156	3,052
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	16,734	6,905	5,216	4,156	-	-
Loans advanced during the year	9,653	16,826	4,272	3,350	-	-
Loans repaid during the year	6,232	34,360	4,869	5,485	-	-
Net increase/(decrease) in overdrafts	61,456	(12,671)	1,628	(1,211)	-	-
Treasury bills and bonds purchased during the year	52,321	266,968	-	-	-	-
Treasury bills and bonds matured/sold during the year	111,182	254,920	-	-	-	-
Interest income for the year	7,977	9,901	842	847	-	-
Interest expense for the year	673	461	98	141	156	57
Short term employee benefits	-	-	-	-	2,981	1,642
Post employment retirement benefits	-	-	-	-	966	541

28. FIDUCIARY ACTIVITIES

At 31 December 2007, third party funds under management amounted to BD 48.93 million (US\$ 130.14 million)[2006 : BD 46.56 million (US \$ 123.83 million)]. These funds were held in trust or in a fiduciary capacity and were not treated as assets of the Bank and accordingly have not been included in the financial statements.

29. GEOGRAPHICAL DISTRIBUTION

Figures in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2007	2006	2007	2006	2007	2006
As at 31 December						
Middle East	1,630,436	1,287,744	1,610,475	1,375,740	258,569	267,942
U.S.A.	84,778	128,506	2,587	729	588	9,489
Europe	173,625	221,836	31,157	76,343	135,496	183,760
Rest of the World	14,873	38,298	15,863	1,431	41	4
Total	1,903,712	1,676,384	1,660,082	1,454,243	394,694	461,195

30. DISTRIBUTION BY SECTOR

Figures in BD '000 As at 31 December	Assets		Liabilities		Contingent liabilities and banking commitments	
	2007	2006	2007	2006	2007	2006
Government	203,890	288,741	97,130	98,057	43,725	47,069
Manufacturing / trading	189,486	146,910	151,746	148,072	26,685	38,790
Banks / financial institutions	925,260	729,246	531,304	485,430	244,347	319,456
Construction	104,619	58,211	13,671	12,654	33,383	27,032
Personal	271,076	249,943	775,319	621,469	1,712	1,176
Others	209,381	203,333	90,912	88,561	44,842	27,672
Total	1,903,712	1,676,384	1,660,082	1,454,243	394,694	461,195

31. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By industry:

Figures in BD '000 As at 31 December 2007	Government			Banks and financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries	Manufacturing and trading					
Assets								
Cash and balances at central banks	-	-	-	53,538	-	-	-	53,538
Treasury bills	16,886	-	-	-	-	-	-	16,886
Placements with banks and other financial institutions	-	-	-	500,145	-	-	-	500,145
Loans and advances	129,773	2,256	161,412	142,947	103,513	268,666	137,400	945,967
Investment securities	45,762	8,468	25,603	219,421	-	-	49,534	348,788
Other assets	664	81	2,471	9,209	1,106	2,410	22,447	38,388
Total assets	193,085	10,805	189,486	925,260	104,619	271,076	209,381	1,903,712
Contingent liabilities and undrawn loan commitments	43,725	-	26,685	34,203	33,383	1,712	44,842	184,550
Forward commitments and derivatives	-	-	-	210,144	-	-	-	210,144

Figures in BD '000 As at 31 December 2006	Government			Banks and financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries	Manufacturing and trading					
Assets								
Cash and balances at central banks	-	-	-	50,181	-	-	-	50,181
Treasury bills	74,422	-	-	-	-	-	-	74,422
Placements with banks and other financial institutions	-	-	-	337,428	-	-	-	337,428
Loans and advances	68,424	5,100	138,965	147,062	57,759	247,188	119,807	784,305
Investment securities	49,420	88,664	4,251	187,681	-	-	62,411	392,427
Other assets	1,737	974	3,694	6,894	452	2,755	21,115	37,621
Total assets	194,003	94,738	146,910	729,246	58,211	249,943	203,333	1,676,384
Contingent liabilities and undrawn loan commitments	47,069	-	38,790	31,460	27,032	1,176	27,672	173,199
Forward commitments and derivatives	-	-	-	287,996	-	-	-	287,996

The above includes certain exposures to customers / counterparties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain.

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31. CONCENTRATION OF CREDIT RISK (continued)
b) By geographical regions:

Figures in BD '000 As at 31 December 2007	Middle East	USA	Europe	Rest of the World	Total
Assets					
Cash and balances at central banks	53,538	-	-	-	53,538
Treasury bills	16,886	-	-	-	16,886
Placements with banks and other financial institutions	392,464	1,980	105,647	54	500,145
Loans and advances	941,973	-	559	3,435	945,967
Investment securities	191,771	81,948	63,734	11,335	348,788
Other assets	33,804	850	3,685	49	38,388
Total assets	1,630,436	84,778	173,625	14,873	1,903,712
Contingent liabilities and undrawn loan commitments	174,095	588	9,836	31	184,550
Forward commitments & derivatives	84,474	-	125,660	10	210,144

Figures in BD '000 As at 31 December 2006	Middle East	USA	Europe	Rest of the World	Total
Assets					
Cash and balances at central banks	50,181	-	-	-	50,181
Treasury bills	74,422	-	-	-	74,422
Placements with banks and other financial institutions	176,598	16,116	129,378	15,336	337,428
Loans and advances	770,814	-	1,791	11,700	784,305
Investment securities	181,766	110,920	88,739	11,002	392,427
Other assets	33,963	1,470	1,928	260	37,621
Total assets	1,287,744	128,506	221,836	38,298	1,676,384
Contingent liabilities and undrawn loan commitments	165,819	89	7,287	4	173,199
Forward commitments & derivatives	102,123	9,400	176,473	-	287,996



32. INTEREST RATE RISK

The Bank uses various techniques for measuring and managing its exposure to interest rate risk. One such tool is the interest rate sensitivity analysis which is presented in the following table. Assets and liabilities are placed in maturity ladders based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgement concerning their most likely repricing behaviour.

The repricing profile and effective interest rate of the various asset and liability categories were as follows:

Figures in BD'000 As at 31 December 2007	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	53,538	53,538
Treasury bills	4.92	5,070	11,816	-	-	-	-	16,886
Placements with banks and other financial institutions	4.53	398,245	88,429	-	-	-	13,471	500,145
Loans and advances	6.61	496,091	102,703	32,177	231,746	83,250	-	945,967
Investment securities	5.45	187,160	54,729	1,502	-	-	105,397	348,788
Accrued interest receivable and other assets	-	-	-	-	-	-	21,317	21,317
Fixed assets	-	-	-	-	-	-	17,071	17,071
Total assets		1,086,566	257,677	33,679	231,746	83,250	210,794	1,903,712
Liabilities and equity								
Due to banks and other financial institutions	4.38	278,039	3,008	5,476	-	-	15,809	302,332
Borrowings under repurchase agreements	3.90	18,135	-	-	-	-	-	18,135
Customers' deposits	3.32	841,827	31,510	63,566	635	-	382,414	1,319,952
Other liabilities		-	-	-	-	-	19,663	19,663
Equity		-	-	-	-	-	243,630	243,630
Total liabilities and equity		1,138,001	34,518	69,042	635	-	661,516	1,903,712
Interest rate sensitivity gap		(51,435)	223,159	(35,363)	231,111	83,250	(450,722)	-
Cumulative interest rate sensitivity gap		(51,435)	171,724	136,361	367,472	450,722	-	-

For the year ended 31 December 2007

32. INTEREST RATE RISK (continued)

Figures in BD'000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2006								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	50,181	50,181
Treasury bills	5.33	54,981	19,441	-	-	-	-	74,422
Placements with banks and other financial institutions	5.03	254,057	43,905	18,650	5,500	-	15,316	337,428
Loans and advances	6.92	393,475	83,305	55,494	172,999	79,032	-	784,305
Investment securities	5.10	131,385	48,687	73,120	43,903	-	95,332	392,427
Accrued interest receivable and other assets	-	-	-	-	-	-	20,519	20,519
Fixed assets	-	-	-	-	-	-	17,102	17,102
Total assets		833,898	195,338	147,264	222,402	79,032	198,450	1,676,384
Liabilities and equity								
Due to banks and other financial institutions	3.23	167,186	-	201	-	-	18,166	185,553
Borrowings under repurchase agreements	3.96	40,885	-	-	-	-	-	40,885
Customers' deposits	3.50	727,891	60,211	42,158	11	-	369,506	1,199,777
Other liabilities	4.69	10,812	-	-	-	-	17,216	28,028
Equity	-	-	-	-	-	-	222,141	222,141
Total liabilities and equity		946,774	60,211	42,359	11	-	627,029	1,676,384
Interest rate sensitivity gap		(112,876)	135,127	104,905	222,391	79,032	(428,579)	-
Cumulative interest rate sensitivity gap		(112,876)	22,251	127,156	349,547	428,579	-	-

33. MARKET RISK

a) The principle tool used to measure and control market risk exposure is Value-at-Risk (VaR). The VaR is the estimated loss that will arise on the trading portfolio over a pre-defined time horizon from an adverse market movement for a specified confidence level. Based on the approval of the Central Bank of Bahrain, the Bank has been computing market risk using an internal model based on RiskMetrics methodology since 1999. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10 day time horizon.

The summary of the VaR position of the Bank at 31 December and during the period is as follows:

VaR position

Figures in BD'000	At 31 Dec	Average	Maximum	Minimum
2007				
Foreign currency risk	1,304	358	1,443	212
Interest rate risk	38	92	215	28
Other price risk	-	-	-	-
Total	1,342	450	1,658	240
VaR position 2006				
Foreign currency risk	232	197	877	141
Interest rate risk	23	50	138	11
Other price risk	-	-	-	-
Total	255	247	1,015	152

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

33. MARKET RISK (continued)

b) The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	200 bp parallel increase	200 bp parallel decrease
2007		
At 31 December	(1,293)	1,293
Average for the period	(3,216)	3,216
Minimum for the period	(1,293)	1,293
Maximum for the period	(5,077)	5,077
	200 bp parallel increase	200 bp parallel decrease
2006		
At 31 December	(4,140)	4,140
Average for the period	(4,817)	4,817
Minimum for the period	(3,479)	3,479
Maximum for the period	(8,365)	8,365

c) The Bank holds investments in quoted equities as part of the available for sale securities. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 15.

34. SEGMENT INFORMATION

a) By business segments

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Retail Banking, Business Banking and Treasury and Capital Markets. These SBUs are the basis on which the Bank reports its primary segment information.

The Retail Banking and Business Banking SBUs provide various banking products and services to the Bank's customers. The SBUs are differentiated based on their respective customer segments. Retail Banking provides banking products and services to individuals. Corporate-Bahrain; Corporate-Regional and Trade Finance and Financial Institutions segments of Business Banking comprise banking with large sized corporates, financial institutions and the Government of Bahrain. Commercial segment of Business Banking deals with small and medium sized companies in Bahrain.

The Treasury and Capital Markets SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk. The SBUs activities comprise borrowing and lending in the interbank market, purchase of treasury bills, proprietary dealing in and customer related foreign exchange, investments and trading in securities, derivatives, managed funds and equities in international markets and selling of Bank's own private label funds to clients.

For the year ended 31 December 2007

34. SEGMENT INFORMATION (continued)

Financial information about the business segments is presented in the following table:

Figures in BD '000	Retail		Business		Treasury		Total	
For the year ended 31 December	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
Interest income	20,845	19,616	42,822	33,438	35,573	30,328	99,240	83,382
Less: interest expense	(15,377)	(11,803)	(27,620)	(23,596)	(14,077)	(9,390)	(57,074)	(44,789)
Inter-segment interest income/(expense)	16,622	12,869	7,186	10,059	(23,808)	(22,928)	-	-
Net interest income	22,090	20,682	22,388	19,901	(2,312)	(1,990)	42,166	38,593
Other income	7,253	5,569	3,557	4,339	12,055	9,050	22,865	18,958
Total revenue	29,343	26,251	25,945	24,240	9,743	7,060	65,031	57,551
Result	18,749	16,030	18,266	18,151	7,127	4,628	44,142	38,809
Unallocated corporate expenses	--	--	--	--	--	--	(2,584)	(1,948)
Net income	--	--	--	--	--	--	41,558	36,861
Other information								
Segment assets	302,035	279,548	827,201	600,516	774,476	796,320	1,903,712	1,676,384
Segment liabilities & equity	660,813	558,613	796,976	767,907	445,923	349,864	1,903,712	1,676,384
Depreciation for the year	437	441	266	274	80	94	783	809
Provision for loans and advances impairment for the year	21	296	(21)	(296)	-	-	-	-

During 2007, the total capital expenditure amounted to BD 1.5 million (US\$ 3.99 million) [2006: BD 0.96 million (US\$: 2.55 million)].

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and Capital Markets. The interest rate for calculating interest on such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

b) By geographical segments

While the Bank conducts its banking business primarily through its Strategic Business Units, it operates from two geographical locations:

- i) Domestic operations, in the Kingdom of Bahrain, representing banking operations conducted through its network of locations in Bahrain and
- ii) Overseas operations conducted through its branch in the United Arab Emirates.

Financial information about the business segments is presented in the following table:

Amount in BD 000's	Domestic		Overseas		Total	
For the year ended 31 December	2007	2006	2007	2006	2007	2006
Total revenue	62,767	54,190	2,264	3,361	65,031	57,551
Net Income	40,050	34,187	1,508	2,674	41,558	36,861
Segment assets	1,683,434	1,579,686	220,278	96,698	1,903,712	1,676,384
Segment liabilities & equity	1,683,434	1,579,686	220,278	96,698	1,903,712	1,676,384