

35. MATURITY PROFILE AND LIQUIDITY RISK

a) Maturity profile

The table below shows the maturity profile of total assets and liabilities and equity based on contractual terms, excepting for Asset Backed Securities and Mortgage Backed Securities which are based on expected weighted average tenor as it is better representative of the product's maturity profile considering the inherent nature of the products.

	Total assets				Total liabilities & equity			
	2007		2006		2007		2006	
	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000
Up to 3 months	852,223	2,266,551	611,737	1,626,960	1,583,337	4,211,003	1,374,738	3,656,218
3 to 6 months	152,491	405,561	154,278	410,314	34,826	92,622	60,634	161,261
6 months to 1 year	54,032	143,702	158,969	422,790	69,632	185,191	42,603	113,306
1 year to 3 years	295,859	786,859	280,456	745,894	635	1,689	11	29
3 years to 5 years	299,477	796,481	202,580	538,777	-	-	-	-
5 years to 10 years	118,862	316,122	147,399	392,018	-	-	-	-
10 years to 20 years	42,547	113,157	40,017	106,428	-	-	-	-
Over 20 years	88,221	234,630	80,948	215,287	215,282	572,558	198,398	527,654
Total	1,903,712	5,063,063	1,676,384	4,458,468	1,903,712	5,063,063	1,676,384	4,458,468

b) Liquidity risk

The table below shows the undiscounted cash flows of the bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example demand deposits from customers are expected to maintain stable or increased balances and undrawn loan commitments are not all expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

	Gross nominal						
	Carrying amount	inflow/ (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Figures in BD '000							
At 31 December 2007							
Non derivative liabilities							
Due to banks and other financial institutions	302,332	(304,091)	(295,321)	(3,080)	(5,690)	-	-
Borrowings under repurchase agreements	18,135	(18,195)	(18,195)	-	-	-	-
Customers' deposits	1,319,952	(1,329,158)	(1,229,978)	(32,517)	(66,003)	(660)	-
	1,640,419	(1,651,444)	(1,543,494)	(35,597)	(71,693)	(660)	-
Derivative liabilities							
Trading: outflow	-	(156,552)	(149,102)	(7,450)	-	-	-
Trading: inflow	1,467	157,700	150,180	7,520	-	-	-
Risk management: outflow	-	(19,241)	(188)	(19,053)	-	-	-
Risk management: inflow	110	19,351	243	19,108	-	-	-
	1,577	1,258	1,133	125	-	-	-
Undrawn loan commitments	92,778	(92,778)	(5,907)	(5,410)	(33,388)	(48,073)	-
Total	1,734,774	(1,742,964)	(1,548,268)	(40,882)	(105,081)	(48,733)	-

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35. MATURITY PROFILE AND LIQUIDITY RISK (continued)

Figures in BD '000	Gross nominal						
	Carrying amount	inflow/ (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
At 31 December 2006							
Non derivative liabilities							
Due to banks and other financial institutions	185,553	(186,041)	(185,837)	-	(204)	-	-
Borrowings under repurchase agreements	40,885	(41,083)	(41,083)	-	-	-	-
Customers' deposits	1,199,777	(1,210,742)	(1,105,112)	(61,333)	(44,297)	-	-
	1,426,215	(1,437,866)	(1,332,032)	(61,333)	(44,501)	-	-
Derivative liabilities							
Trading: outflow	(309)	(198,795)	(145,736)	(18,561)	(26,772)	(7,726)	-
Trading: inflow	-	198,055	145,104	15,409	29,826	7,716	-
Risk management: outflow	-	(20,008)	(193)	(193)	(386)	(19,236)	-
Risk management: inflow	98	20,302	242	242	484	19,334	-
	(211)	(446)	(583)	(3,103)	3,152	88	-
Undrawn loan commitments	108,967	(108,967)	(18,302)	(6,693)	-	(83,972)	-
Total	1,534,971	(1,547,279)	(1,350,917)	(71,129)	(41,349)	(83,884)	-

36. RETIREMENT BENEFIT COSTS

Bahraini employees, excluding the Managing Director & Chief Executive, are covered by the General Organisation for Social Insurance pension scheme to which employees and employer contribute monthly on a fixed-percentage-of-salaries basis. The Bank's contributions in respect of Bahraini employees for 2007 amounted to BD 0.69 million (US\$ 1.84 million) [2006: BD 0.57 million (US\$ 1.52 million)] and has been recognised as an expense under IAS 19.

The Managing Director & Chief Executive, expatriate employees in Bahrain and Abu Dhabi Branch employees are entitled to leaving indemnities payable in accordance with employment agreements or under the respective labour laws, based on length of service and final remuneration. The liability, which is unfunded and which represents a defined benefit scheme under IAS 19, is provided for on the basis of the cost had all such employees left at the balance sheet date.

Provision for leaving indemnities	2007	2007	2006	2006
	BD '000	US\$ '000	BD '000	US\$ '000
Movements during the year				
At 1 January	3,396	9,032	2,453	6,524
Charged against profits	1,925	5,120	1,092	2,904
Paid in the year	(224)	(596)	(149)	(396)
At 31 December	5,097	13,556	3,396	9,032

Effective 2001, the Bank introduced a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the scheme. The scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the scheme for 2007 amounted to BD 0.51 million (US\$ 1.36 million) [2006: BD 0.45 million (US\$ 1.20 million)]. At 31 December 2007, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the scheme, the net balance of the scheme, amounted to BD 1.74 million (US\$ 4.63 million) [2006: BD 1.47 million (US\$ 3.91 million)].

37. EARNINGS AND DIVIDEND PER SHARE

	2007	2007	2006	2006
	BD millions	US\$ millions	BD millions	US\$ millions
Net income	41.56	110.53	36.86	98.03
Dividend proposed at 40% (2006: 40%)	25.92	68.94	21.60	57.45
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	540	540	540	540
Effect of bonus shares issued during 2007	108	108	108	108
Weighted average number of ordinary shares (millions)	648	648	648	648
Earnings per share	64.1 fils	US\$ 0.17	56.9 fils	US\$ 0.15
Dividend per share	40.0 fils	US\$ 0.11	33.0 fils	US\$ 0.09

Diluted earnings per share has not been presented as the Bank has no commitments that would dilute earnings per share.

38. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Quoted market prices, when available, are used to measure fair value. In cases where quoted market prices are not available, fair values are based on present value estimates or other appropriate valuation techniques.

The following table provides disclosure of the estimated fair value of financial instruments, for which it is practical to estimate fair value:

Figures in BD'000 As at 31 December	2007		2006	
	Book value	Estimated fair value	Book value	Estimated fair value
Financial assets				
Cash and balances at central banks (a)	53,538	53,538	50,181	50,181
Treasury bills (b)	16,886	16,886	74,422	74,422
Placements with banks and other financial institutions (a)	500,145	500,145	337,428	337,428
Loans and advances (d)	945,967	945,967	784,305	784,305
Investment Securities (c)	348,788	348,788	392,427	392,427
Other assets (e)	21,317	21,317	20,519	20,519
Financial liabilities				
Due to banks and other financial institutions (f)	302,332	302,332	185,553	185,553
Borrowings under repurchase agreements (f)	18,135	18,135	40,885	40,885
Customers' deposits (g)	1,319,952	1,319,952	1,199,777	1,199,777
Other financial liabilities (h)	19,663	19,663	28,028	28,028

a) Assets for which fair value approximates book value: The fair value is considered to approximate their respective book values due to their short-term nature and negligible probability of credit losses.

b) Treasury bills: The fair value of unquoted treasury bills is considered to approximate their respective book values due to their short-term nature and negligible probability of credit losses.

c) Securities: The fair value of the quoted debt and equity securities, mutual funds and capital protected notes are based on market prices. The fair value of unquoted equity securities are estimated with reference to the financial performance and other relevant available financial and economic data.

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38. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Loans and advances: The Bank has reviewed the loans and advances portfolio and estimates that the fair value of the portfolio approximates its carrying value, since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectibility.

e) Other financial assets: The fair value of other financial assets including accrued interest receivable approximate their respective book values due to their short term nature. Derivatives with positive fair values are included in other assets. The fair value of derivatives is based on market prices and or valuation models as appropriate.

f) Liabilities for which fair value approximates book value: The fair value is considered to approximate their respective book values due to their short term nature.

g) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.

h) Other financial liabilities: The fair value of other financial liabilities including accrued interest payable approximate their respective book values due to their short term nature. Derivatives with negative fair values are included in other liabilities. The fair value of derivatives is based on market prices and or valuation models as appropriate.

39. AVERAGE BALANCES

The following are the average daily balances for full year 2007 and 2006

	2007		2006	
	BD '000	US\$ '000	BD '000	US\$ '000
Total assets	1,770,535	4,708,870	1,541,961	4,100,960
Total liabilities	1,546,282	4,112,452	1,330,699	3,539,093
Equity	224,253	596,418	211,262	561,867
Contingent liabilities and undrawn loan commitments	198,126	526,931	166,812	443,649

40. CAPITAL ADEQUACY

The capital adequacy ratio has been calculated in accordance with the guidelines of the Central Bank of Bahrain, incorporating both credit risk and market risk.

For the purpose of computing market risk the Bank calculates value at risk (VaR) using the internal model approach based on RiskManager system by RiskMetrics. VaR is calculated using the RiskMetrics regulatory data set and is based on a 99 percent confidence level, a ten day holding period and a multiplication factor of 3. The measure of market risk so computed is multiplied by 12.5, the reciprocal of the 8 percent minimum capital ratio, to arrive at the market risk-weighted exposure. The market risk-weighted assets are then added to the credit risk-weighted assets to arrive at the Bank's total risk-weighted exposure, which is used for the purpose of computing the capital adequacy ratio. Details of the Bank's calculations as at 31 December are shown below:

	2007		2006	
	BD '000	US\$ '000	BD '000	US\$ '000
Based on year end balances				
Tier 1 capital				
Equity (adjusted based on regulatory guidelines relating to IAS 39)	190,338	506,218	172,513	458,811
Tier 2 capital				
General provision subject to a 1.25% risk-adjusted exposure limitation	6,491	17,263	7,238	19,250
Net unrealised holding gains on available-for-sale equity securities	55,175	146,742	50,881	135,322
Total Tier 2 capital	61,666	164,005	58,119	154,572
Total capital base (Tier 1 + Tier 2)	252,004	670,223	230,632	613,383

40. CAPITAL ADEQUACY (continued)	2007	2007	2006	2006
Based on year end balances	BD '000	US\$ '000	BD '000	US\$ '000
Credit risk-weighted assets				
Balance sheet items	798,782	2,124,420	678,152	1,803,596
Off-balance sheet items	41,564	110,543	39,888	106,085
Total credit risk-weighted assets	840,346	2,234,963	718,040	1,909,681
Market risk-weighted assets	50,325	133,843	85,963	228,625
Total risk-weighted assets	890,671	2,368,806	804,003	2,138,306
Capital adequacy ratio	(a/b × 100)	28.3%		28.7%

The details of the Bank's capital adequacy ratio computations on the basis of annual average Tier 1 and Tier 2 capital and annual average credit and market risk-weighted assets are shown below.

Based on full year average balances	2007	2007	2006	2006
	BD '000	US\$ '000	BD '000	US\$ '000
Tier 1 capital				
Equity (adjusted based on regulatory guidelines relating to IAS 39)	176,207	468,636	159,167	423,316
Tier 2 capital				
General provision subject to a 1.25% risk-adjusted exposure limitation	6,887	18,316	7,600	20,213
Net unrealised holding gains on available-for-sale equity securities	51,075	135,838	52,288	139,064
Total Tier 2 capital	57,962	154,154	59,888	159,277
Total capital base (Tier 1 + Tier 2)	234,169	622,790	219,055	582,593
Credit risk-weighted assets				
Balance sheet items	760,260	2,021,968	631,281	1,678,939
Off-balance sheet items	45,208	120,234	36,438	96,909
Total credit risk-weighted assets	805,468	2,142,202	667,719	1,775,848
Market risk-weighted assets	84,962	225,963	81,797	217,545
Total risk-weighted assets	890,430	2,368,165	749,516	1,993,393
Capital adequacy ratio	(a/b × 100)	26.3%		29.2%

41. LEGAL CLAIMS

As at 31 December 2007, there were eight legal suits pending against the Bank aggregating BD 0.10 million (US\$ 0.27 million). Based on the opinion of the Bank's legal advisors, management believes that no liability is likely to arise from these suits and does not consider it necessary to carry any specific provisions in this respect.

42. DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the deposit protection scheme (the Scheme) which was established by the Central Bank of Bahrain. The Scheme applies to all non-banking private sector deposits held with the Bahrain offices of the Bank subject to specific exclusions mainly relating to maximum deposit amounts, maximum total amount covered in one calendar year and maximum total amount of the Deposit Protection Board's financial resources. No up-front contribution is required to the Scheme and no liability is due until one of the member commercial banks is unable to meet its depository obligations.

43. COMPARATIVES

The comparative figures have been reclassified where necessary to conform with the current year's presentation. Such reclassification has not affected net income; total assets; and total liabilities and equity of the Bank.

44. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

The following new / amended IFRS's and interpretations have been issued which are not yet mandatory for adoption by the Bank:

- IAS 1 "Presentation of Financial Instruments": effective for financial periods beginning on or after 1 January 2009.
- IAS 23 "Borrowing Costs": effective for financial periods beginning on or after 1 January 2009.
- IFRS 8 "Operating Segments": effective for financial periods beginning on or after 1 January 2009.
- IFRIC 13 "Customer Loyalty Programs": effective for financial periods beginning on or after 1 July 2008.
- IFRIC 14 IAS 19 "The Limit on A Defined Benefit Asset, Minimum Funding Requirements and their Interaction": effective for financial periods beginning on or after 1 January 2008.

The adoption of these standards and interpretations are not expected to have a material impact on the financial statements of the Bank.