



Notes to the Financial Statements

For the year ended 31 December 2008

1. ACTIVITIES

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank operates in Bahrain under a banking licence issued under Rule Book Volume 1 by the Central Bank of Bahrain. The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operates under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Stock Exchange, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006. The accounting policies have been applied consistently for the periods presented herein.

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US Dollar at the rate of BHD 0.376 to US\$ 1 (2007: BHD 0.376 to US\$ 1).

b. Basis of preparation

The financial statements have been prepared under the historical cost convention basis except for financial instruments at fair value through profit or loss, available for sale investments and derivative financial instruments which are measured at fair value.

c. Foreign currencies

Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Realised and unrealised exchange gains and losses arising on such translation are included in Other Income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in income statement, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in equity.

Foreign Operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at the period-end rates of exchange. The income and expenses of these overseas branches are translated into Bahraini Dinar at average exchange rates for the period. Differences resulting from the translation of the opening net investment in these overseas branches are taken directly to equity.

d. Use of estimates and management judgement

The preparation of financial statements requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The use of considerable judgement and estimates is principally required in the estimation of the amount and timing of future cash flows when determining the level of provisions required for individually significant non-performing loans and advances, estimating incurred losses that are inherent within the loans and advances portfolio and impairment losses for available-for-sale financial assets.



Notes to the Financial Statements

For the year ended 31 December 2008

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. For other employees the retirement scheme is considered as a 'Defined Benefit Plan'. The cost of providing these retirement benefits is charged to the income statement.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the income statement.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i) Investments at fair value through profit or loss

Investments at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, lead manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the income statement.

Trading Securities: Securities which are either acquired for the purpose of generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market prices. Realised and unrealised gains and losses on trading securities are included in the income statement.

ii) Held To Maturity Investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.



Notes to the Financial Statements

For the year ended 31 December 2008

iii) Available-for-Sale Securities

Securities which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale securities. Available-for-sale securities which comprise both debt and equity securities are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices or amounts derived from cash flow models as appropriate. Unquoted and illiquid equity investments for which fair values cannot be reliably measured are stated at cost less provision for impairment. Unrealised gains and losses arising from changes in the fair values of available-for-sale securities are recognised in a separate revaluation reserve in equity. The cumulative fair value adjustments on available-for-sale securities which are sold or otherwise disposed of, or become impaired, and which had previously been recognised in equity are transferred to the income statement. Impairment losses on available for sale equity investments are not reversed through the income statement.

iv) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

v) Customer deposits

Customer deposits are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

vi) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

vii) Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the same income statement line item as the hedged item.

In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in Other Income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on that hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the income statement.

All derivative financial instruments are recognised in the balance sheet as either assets (positive fair values) or liabilities (negative fair values).

viii) Repos and Reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the balance sheet and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.



Notes to the Financial Statements

For the year ended 31 December 2008

ix) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at Central banks, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are convertible to known amounts of cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition.

x) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

xi) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

g. Impairment

The carrying amount of the Bank's financial assets is reviewed at each reporting period to determine whether there is objective evidence that a specific asset may be impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in income statement and reflected in an allowance account against loans and advances. When subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between amortised cost and current fair value out of equity to income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly to equity.

Provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of similar loans and advances, that are not individually identified as impaired, on the basis of estimates of incurred losses that are inherent but not yet specifically identified within the loans and advances portfolio at the balance sheet date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that



Notes to the Financial Statements

For the year ended 31 December 2008

significant influence ceases. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the income statement over the remaining estimated useful life of the property and equipment.

j. Other provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

k. Off-setting

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

l. Settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the Board and its Committees.

Employees - The Bank's remuneration policies, which are approved by the Board of Directors, is applicable for all employees including the Chief Executive Officer. The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

o. Income tax liability

Companies are not liable to income tax in Bahrain.



Notes to the Financial Statements

For the year ended 31 December 2008

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Credit Policy and Risk Management (CPRM) division of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This division functions independent of the business units and reports directly to the Chief Executive Officer.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Management Internal Control division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc., Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

The Credit Review Department of the Bank analyses risks and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.



Notes to the Financial Statements

For the year ended 31 December 2008

Liquidity Risk

Liquidity Risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank. The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the Value-at-Risk (VaR) measure to estimate the exposure of the trading portfolio and total currency book to market risk. Daily reports in this regard are submitted to senior management for review and decision making purposes. The Bank also uses back testing to validate the VaR model and the results confirm that the model adequately captures risk within the Bank's trading portfolio.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks.

The scope of the Bank's internal audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the internal audit department and assessed for operational risks prior to their implementation. The internal audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.



Notes to the Financial Statements

For the year ended 31 December 2008

4. TREASURY BILLS

Treasury bills comprise unquoted short-term treasury bills issued by the Government of Bahrain and Government of Saudi Arabia and denominated in the local currencies and unquoted short-term Islamic bills issued by the Government of Bahrain and denominated in United States Dollars.

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Government of Bahrain	6,408	17,043	16,886	44,910
Government of Saudi Arabia	10,169	27,045	–	–
Total	16,577	44,088	16,886	44,910

5. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions is part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Placements with banks	378,392	1,006,362	475,880	1,265,638
Placements with other financial institutions	32,091	85,348	24,265	64,535
Total	410,483	1,091,710	500,145	1,330,173

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Current and call accounts	10,535	28,019	13,471	35,827
Placements Term	399,948	1,063,691	482,901	1,284,311
Reverse Repos	–	–	3,773	10,035
Total	410,483	1,091,710	500,145	1,330,173

6. TRADING SECURITIES

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Equities	385	1,024	–	–
Total	385	1,024	–	–



Notes to the Financial Statements

For the year ended 31 December 2008

7. LOANS AND ADVANCES

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Loans and advances to non-banks	975,504	2,594,426	871,393	2,317,535
Loans and advances to banks	133,103	353,997	89,119	237,019
Less: Provision for impairment	(12,896)	(34,298)	(14,545)	(38,684)
Total	1,095,711	2,914,125	945,967	2,515,870

b) Loans and advances are of a floating rate nature, since as per the Bank's loan agreements, the Bank reserves the right to change the rate of interest at any time in the event of money market fluctuations and/or other credit/banking considerations which may be set out from time to time by the Bank and/or any governmental or regulatory authority.

c) As at 31 December 2008, the amount of floating rate loans for which interest is being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 571.4 million (US\$ 1,519.7 million) [31 December 2007: BD 366.6 million (US\$ 975.0 million)].

d) The Bank holds collateral in the form of mortgage on properties, shares, cash deposits and counter-guarantees from shareholders and/or third parties etc against its credit exposures.

e) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing. The following is the ageing schedule of non-performing and other impaired and past due loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Over 3 months to 1 year	2,291	6,093	4,196	11,160
1 to 3 years	1,545	4,109	1,595	4,242
Over 3 years	4,815	12,806	3,099	8,242
Total	8,651	23,008	8,890	23,644

As at 31 December 2008, loans on which payments of interest or repayments of principal are overdue up to 90 days amounted to BD1.26 million (US\$ 3.35 million) [31 December 2007: BD 2.58 million (US\$ 6.86 million)].

As at 31 December 2008, the principal outstanding of the non-performing loans portfolio on which interest is not being accrued amounted to BD 7.50 million (US\$ 19.95 million) [31 December 2007: BD 8.06 million (US\$ 21.44 million)].

Management estimates the fair value of collaterals held against individually impaired loans and advances to reasonably approximate BD 7.25 million (US\$ 19.28 million) [31 December 2007: BD 3.55 million (US\$ 9.44 million)].

f) During 2008, credit facilities amounting to BD1.39 million (US\$ 3.70 million) were restructured [2007: BD 3.30 million (US\$ 8.78 million)]. Restructuring concessions mainly related to deferral of loans installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections. Due to the minor nature of concessions, there was no significant impact on the Bank's provisions for loans and advances impairment and present and future earnings.



Notes to the Financial Statements

For the year ended 31 December 2008

g) Exposure to credit risk

As at 31 December	2008		2007	
	BD'000	US\$ '000	BD '000	US\$ '000
Total carrying amount	1,095,711	2,914,125	945,967	2,515,870
1. Individually impaired				
Substandard	1,150	3,058	831	2,210
Doubtful	177	471	242	644
Loss	12,055	32,061	12,188	32,414
Gross amount	13,382	35,590	13,261	35,268
Interest in suspense	(4,731)	(12,582)	(4,371)	(11,625)
Specific allowance for impairment	(7,521)	(20,003)	(8,054)	(21,420)
Individually impaired carrying amount	1,130	3,005	836	2,223
2. Past due below 90 days but not impaired				
Gross amount	1,257	3,343	2,578	6,857
Collective impairment provision	(6)	(16)	(18)	(48)
Past due but not impaired carrying amount	1,251	3,327	2,560	6,809
3. Neither past due nor impaired by internal rating				
Rated 1	107,598	286,165	78,986	210,069
Rated 2	28,999	77,125	79,812	212,266
Rated 3	326,846	869,271	233,923	622,136
Rated 4	261,372	695,138	268,495	714,082
Rated 5	135,642	360,750	64,487	171,508
Rated 6	2,697	7,173	5,373	14,290
Not rated *	235,545	626,450	217,968	579,702
Gross amount	1,098,699	2,922,072	949,044	2,524,053
Collective impairment provision	(5,369)	(14,279)	(6,473)	(17,215)
Carrying amount of neither past due nor impaired	1,093,330	2,907,793	942,571	2,506,838
Total carrying amount	1,095,711	2,914,125	945,967	2,515,870

* Includes mainly consumer loans and other facilities which are not assigned any ratings at inception.

h) Impairment provisions for loans and advances

Movements during the year	Specific Provision		Collective Impairment Provision		Total Provisions		Interest in Suspense	
	2008	2007	2008	2007	2008	2007	2008	2007
Amounts in BD 000's								
At 1 January	8,054	7,627	6,491	7,238	14,545	14,865	4,371	4,232
Charge for the year	128	1,055	–	–	128	1,055	744	796
Amounts written off against provision	(344)	(302)	(5)	(18)	(349)	(320)	(7)	(478)
Recoveries & write backs	(317)	(326)	(1,111)	(729)	(1,428)	(1,055)	(377)	(179)
At 31 December	7,521	8,054	5,375	6,491	12,896	14,545	4,731	4,371