



Notes to the Financial Statements

For the year ended 31 December 2008

30. (a) Concentration of Credit Risk – By industry (continued)

Figures in BD'000

As at 31 December 2007	Government		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
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	45,732	8,468	25,603	149,233	–	–	48,685	277,721
Other assets	664	81	2,471	9,209	1,106	2,410	5,376	21,317
Total assets	193,055	10,805	189,486	855,072	104,619	271,076	191,461	1,815,574
Contingent liabilities and banking commitments	43,725	–	26,685	51,501	33,383	1,712	44,842	201,848
Derivatives	–	–	–	177,859	–	–	–	177,859

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.

The balances at the end of the period are representative of the position during the period and hence average balances have not been separately disclosed.

(b) By geographical regions:

Figures in BD'000

As at 30 December 2008	Middle East	USA	Europe	Rest of the World	Total
Assets					
Cash and balances at central banks	82,398	–	–	–	82,398
Treasury bills	16,577	–	–	–	16,577
Placements with banks and other financial institutions	343,677	2,418	64,050	338	410,483
Loans and advances	1,085,099	7,464	–	3,148	1,095,711
Investment securities	124,921	139,531	48,880	13,041	326,373
Other assets	10,340	563	208	53	11,164
Total assets	1,663,012	149,976	113,138	16,580	1,942,706
Contingent liabilities and banking commitments	111,869	242	28,240	7,773	148,124
Derivatives	108,847	1,591	71,701	296	182,435



Notes to the Financial Statements

For the year ended 31 December 2008

30. (b) Concentration of Credit Risk – By geographical regions (continued)

Figures in BD'000

As at 30 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	120,746	81,948	63,734	11,293	277,721
Other assets	16,733	850	3,685	49	21,317
Total assets	1,542,340	84,778	173,625	14,831	1,815,574
Contingent liabilities and banking commitments	180,302	588	20,927	31	201,848
Derivatives	78,267	–	99,582	10	177,859

31. INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets 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.



Notes to the Financial Statements

For the year ended 31 December 2008

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

Figures in BD'000 As at 31 December 2008	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	–	–	–	–	–	–	82,398	82,398
Treasury bills	3.00%	6,608	9,969	–	–	–	–	16,577
Placements with banks and other financial institutions	1.76%	386,550	–	13,398	–	–	10,535	410,483
Trading securities	–	–	–	–	–	–	385	385
Loans and advances	5.37%	567,752	170,236	38,698	231,433	87,592	–	1,095,711
Investment securities	3.16%	196,473	63,731	39,487	–	–	99,485	399,176
Accrued interest receivable and other assets	–	–	–	–	–	–	12,509	12,509
Property and equipment	–	–	–	–	–	–	16,860	16,860
Total assets		1,157,383	243,936	91,583	231,433	87,592	222,172	2,034,099
Liabilities and equity								
Due to banks and other financial institutions	1.22%	232,060	–	216	–	–	21,681	253,957
Borrowings under repurchase agreements	0.67%	31,824	–	–	–	–	–	31,824
Customers' deposits	1.74%	828,381	118,388	94,590	–	–	477,897	1,519,256
Other liabilities	–	–	–	–	–	–	11,677	11,677
Equity	–	–	–	–	–	–	217,385	217,385
Total liabilities and equity		1,092,265	118,388	94,806	–	–	728,640	2,034,099
Interest rate sensitivity gap		65,118	125,548	(3,223)	231,433	87,592	(506,468)	–
Cumulative interest rate sensitivity gap		65,118	190,666	187,443	418,876	506,468	–	–



Notes to the Financial Statements

For the year ended 31 December 2008

The repricing profile and effective interest rate of the various asset and liability categories are 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
Trading securities								
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	–	–	104,549	347,940
Accrued interest receivable and other assets	–	–	–	–	–	–	22,165	22,165
Property and equipment	–	–	–	–	–	–	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	0	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	–	–



Notes to the Financial Statements

For the year ended 31 December 2008

32. 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 2008 and during the period is as follows:

Figures in BD'000	2008			
	At 31 Dec	Average	Maximum	Minimum
Foreign currency risk	1,705	1,326	1,791	1,025
Interest rate risk	87	68	160	27
Other price risk	218	102	218	–
Total	2,010	1,496		

The summary of the VaR position of the Bank at 31 December 2007 and during the period is as follows:

Figures in BD'000	2007			
	At 31 Dec	Average	Maximum	Minimum
Foreign currency risk	1,304	358	1,443	212
Interest rate risk	38	92	215	28
Other price risk	–	–	–	–
Total	1,342	450		

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.



Notes to the Financial Statements

For the year ended 31 December 2008

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:

Figures in BD'000	200 bps parallel increase	200 bps parallel decrease
2008		
At 31 December	(3,249)	3,249
Average for the year	(2,983)	2,983
Minimum for the year	(4,422)	4,422
Maximum for the year	(13)	13
Figures in BD'000	200 bps parallel increase	200 bps parallel decrease
2007		
At 31 December	(1,293)	1,293
Average for the year	(3,216)	3,216
Minimum for the year	(1,293)	1,293
Maximum for the year	(5,077)	5,077

(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 16.



Notes to the Financial Statements

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33. 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 Investments. 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 caters to individuals. Business Banking caters to Government of Bahrain, Corporate-Bahrain, Small and Medium Enterprises-Bahrain, Corporate-Regional and Trade & Financial Institutions.

The Treasury and Investments 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.

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	2008	2007	2008	2007	2008	2007	2008	2007
Revenue								
Interest income	21,986	20,845	37,480	42,822	24,943	35,573	84,409	99,240
Less: interest expense	(9,323)	(15,377)	(19,794)	(27,620)	(9,236)	(14,077)	(38,353)	(57,074)
Inter-segment interest income/(expense)	10,588	16,622	5,375	7,186	(15,963)	(23,808)	-	-
Net interest income	23,251	22,090	23,061	22,388	(256)	(2,312)	46,056	42,166
Other income	8,516	7,253	6,080	3,557	2,008	12,055	16,604	22,865
Total revenue	31,767	29,343	29,141	25,945	1,752	9,743	62,660	65,031
Result	22,283	18,749	21,082	18,266	(6,109)	7,127	37,256	44,142
Unallocated corporate expenses							(2,517)	(2,584)
Net income							34,739	41,558
Other information								
Segment assets	307,267	302,035	887,609	827,201	839,223	774,476	2,034,099	1,903,712
Segment liabilities & Equity	651,887	660,813	989,244	796,976	392,968	445,923	2,034,099	1,903,712
Depreciation for the year	505	437	387	266	89	80	981	783
Impairment provision for loans and advances for the year	(888)	21	(412)	(21)	5,212	-	3,912	-

During 2008, the total capital expenditure amounted to BD 1.69 million (US\$ 4.49 million) [2007: BD 1.5 million (US\$ 3.99 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 Investments. The interest rate for calculating interest of 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.



Notes to the Financial Statements

For the year ended 31 December 2008

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 branches in the United Arab Emirates and Saudi Arabia.

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

Amount in BD 000's For the year ended 31 December	Domestic		Overseas		Total	
	2008	2007	2008	2007	2008	2007
Total revenue	60,146	62,767	2,514	2,264	62,660	65,031
Net Income	34,267	40,050	472	1,508	34,739	41,558

Amount in BD 000's

As at 31 December	2008	2007	2008	2007	2008	2007
	Segment assets	1,884,237	1,683,434	149,862	220,278	2,034,099
Segment liabilities & Equity	1,884,237	1,683,434	149,862	220,278	2,034,099	1,903,712

34. 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, except 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.

Figures in BD'000 As at 31 December 2008	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	82,398	–	–	–	–	–	–	–	82,398
Treasury bills	6,608	9,969	–	–	–	–	–	–	16,577
Placements with banks and other financial institutions	397,085	–	13,398	–	–	–	–	–	410,483
Trading securities	385	–	–	–	–	–	–	–	385
Loans and advances	188,532	31,429	119,226	307,879	253,548	153,272	38,983	2,842	1,095,711
Investment Securities	30,596	19,317	34,517	158,285	79,623	4,035	–	72,803	399,176
Accrued interest receivable & other assets	9,836	924	404	–	–	–	–	18,205	29,369
Total assets	715,440	61,639	167,545	466,164	333,171	157,307	38,983	93,850	2,034,099
Liabilities and equity									
Due to banks and other financial institutions	253,741	–	216	–	–	–	–	–	253,957
Borrowings under repurchase agreements	31,824	–	–	–	–	–	–	–	31,824
Customers' deposits	1,306,219	118,405	94,626	6	–	–	–	–	1,519,256
Accrued interest payable & other liabilities	10,485	800	392	–	–	–	–	–	11,677
Equity	23,678	–	–	–	–	–	–	193,707	217,385
Total liabilities and equity	1,625,947	119,205	95,234	6	–	–	–	193,707	2,034,099



Notes to the Financial Statements

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34. (a) Maturity Profile (continued)

Figures in BD'000	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
As at 31 December 2007									
Assets									
Cash and balances at central banks	53,538	–	–	–	–	–	–	–	53,538
Treasury bills	5,070	11,816	–	–	–	–	–	–	16,886
Placements with banks and other financial institutions	411,716	88,429	–	–	–	–	–	–	500,145
Trading securities	–	–	–	–	–	–	–	–	–
Loans and advances	298,663	26,010	46,749	215,021	211,014	105,880	42,547	83	945,967
Investment Securities	66,351	21,875	7,212	80,838	88,463	12,982	–	70,219	347,940
Accrued interest receivable & other assets	16,885	4,361	71	–	–	–	–	17,919	39,236
Total assets	852,223	152,491	54,032	295,859	299,477	118,862	42,547	88,221	1,903,712
Liabilities and equity									
Due to banks and other financial institutions	293,848	3,008	5,476	–	–	–	–	–	302,332
Borrowings under repurchase agreements	18,135	–	–	–	–	–	–	–	18,135
Customers' deposits	1,224,241	31,510	63,566	635	–	–	–	–	1,319,952
Accrued interest payable & other liabilities	18,765	308	590	–	–	–	–	–	19,663
Equity	28,348	–	–	–	–	–	–	215,282	243,630
Total liabilities and equity	1,583,337	34,826	69,632	635	–	–	–	215,282	1,903,712

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.

Figures in BD'000	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years
As 31 December 2008						
Non derivative liabilities						
Due to banks and other financial institutions	253,957	(254,404)	(254,188)	–	(216)	–
Borrowings under repurchase agreements	31,824	(31,850)	(31,850)	–	–	–
Customers' deposits	1,519,256	(1,533,342)	(1,297,981)	(137,749)	(97,606)	(6)
Total non derivative liabilities	1,805,037	(1,819,596)	(1,584,019)	(137,749)	(97,822)	(6)
Derivative liabilities						
Trading: outflow	–	(184,180)	(152,214)	(31,966)	–	–
Trading: inflow	99	182,435	150,379	32,056	–	–
Risk management: outflow	–	–	–	–	–	–
Risk management: inflow	–	–	–	–	–	–
Total derivative liabilities	99	(1,745)	(1,835)	90	–	–
Banking commitments	35,176	(35,176)	(21,458)	–	(11,508)	(2,210)
Total	1,840,312	(1,856,517)	(1,607,312)	(137,659)	(109,330)	(2,216)



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34. (b) Liquidity Risk (continued)

Figures in BD'000 As 31 December 2007	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years
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)
Total non derivative liabilities	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	–	–
Total derivative liabilities	1,577	1,258	1,133	125	–	–
Banking commitments	110,076	(110,076)	(23,205)	(5,410)	(33,388)	(48,073)
Total	1,752,072	(1,760,262)	(1,565,566)	(40,882)	(105,081)	(48,733)

35. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social Insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2008 amounted to BD 0.86 million (US\$ 2.29 million) [2007: BD 0.69 million (US\$ 1.84 million)].

Other employees are entitled to leaving indemnities payable in accordance with the 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

Movements during the year	2008		2007	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	5,097	13,556	3,396	9,032
Charged for the year	1,577	4,194	1,925	5,120
Paid during the year	(4,956)	(13,181)	(224)	(596)
At 31 December	1,718	4,569	5,097	13,556

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 2008 amounted to BD 0.53 million (US\$ 1.41 million) [2007:BD 0.51 million (US\$ 1.36 million)]. As 31 December 2008, 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 4.78 million (US\$ 12.71 million) [31 December 2007:BD 4.21 million (US\$ 11.20 million)].

36. LEGAL CLAIMS

As at 31 December 2008, there were legal suits pending against the Bank aggregating BD 0.17 million (US\$ 0.45 million) [2007: 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 the suits and does not consider it necessary to carry any specific provision in this respect.



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37. EARNINGS AND DIVIDEND PER SHARE

	2008		2007	
	BD millions	US\$ millions	BD millions	US\$ millions
Net income	34.74	92.39	41.56	110.53
Dividend proposed at 30% (2007: 40 %)	23.33	62.04	25.92	68.94
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	648.0	648.0	648.0	648.0
Effect of bonus shares issued during 2008	129.6	129.6	129.6	129.6
Weighted average number of ordinary shares (millions)	777.6	777.6	777.6	777.6
Earnings per share	44.7 fils	12 cents	53.4 fils	14 cents
Dividend per share	30.0 fils	US\$ 0.08	40.0 fils	US\$ 0.11

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

38. ACCOUNTING CLASSIFICATION AND FAIR VALUES

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 accounting classification and estimated fair value of financial instruments, for which it is practical to estimate fair value:

In BD 000's

At 31 December 2008	Trading	Designated at fair value through profit or loss	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances at central banks	-	-	-	82,398	-	-	82,398	82,398
Trading securities	385	-	-	-	-	-	385	385
Treasury bills	-	-	-	16,577	-	-	16,577	16,577
Placements with banks and other financial institutions	-	-	-	410,483	-	-	410,483	410,483
Loans and advances	-	-	-	1,095,711	-	-	1,095,711	1,095,711
Investment securities	-	26,683	-	-	372,493	-	399,176	399,176
Accrued interest receivable & other assets	-	-	-	11,164	-	-	11,164	11,164
	385	26,683	-	1,616,333	372,493	-	2,015,894	2,015,894
Due to banks and other financial institutions	-	-	-	-	-	253,957	253,957	253,957
Borrowings under repurchase agreements	-	-	-	-	-	31,824	31,824	31,824
Customers' deposits	-	-	-	-	-	1,519,256	1,519,256	1,519,256
Accrued interest payable & other liabilities	-	-	-	-	-	9,722	9,722	9,722
	-	-	-	-	-	1,814,759	1,814,759	1,814,759



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For the year ended 31 December 2008

38. Accounting Classification and Fair Values (continued)

In BD 000's

At 31 December 2007	Trading	Designated at fair value through profit or loss	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances at central banks	–	–	–	53,538	–	–	53,538	53,538
Trading securities	–	–	–	–	–	–	–	–
Treasury bills	–	–	–	16,886	–	–	16,886	16,886
Placements with banks and other financial institutions	–	–	–	500,145	–	–	500,145	500,145
Loans and advances	–	–	–	945,967	–	–	945,967	945,967
Investment securities	–	36,207	–	–	311,733	–	347,940	347,940
Accrued interest receivable & other assets	–	–	–	21,317	–	–	21,317	21,317
	–	36,207	–	1,537,853	311,733	–	1,885,793	1,885,793
Due to banks and other financial institutions	–	–	–	–	–	302,332	302,332	302,332
Borrowings under repurchase agreements	–	–	–	–	–	18,135	18,135	18,135
Customers' deposits	–	–	–	–	–	1,319,952	1,319,952	1,319,952
Accrued interest payable & other liabilities	–	–	–	–	–	8,597	8,597	8,597
	–	–	–	–	–	1,649,016	1,649,016	1,649,016

(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, managed 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.

(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.



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39. AVERAGE BALANCES

The following are the average daily balances for full year:

	2008		2007	
	BD '000	US\$ '000	BD '000	US\$ '000
Total assets	1,976,279	5,256,061	1,770,535	4,708,870
Total liabilities	1,740,374	4,628,654	1,546,282	4,112,452
Equity	235,905	627,407	224,253	596,418
Contingent liabilities and undrawn loan commitments	189,808	504,809	198,126	526,931

40. CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with the Basel 2 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardised Approach for computing Credit Risk. Operational Risk is computed using the Basic Indicator Approach. For the purpose of computing Market Risk in the trading portfolio, the Bank calculates Value at Risk (VaR) using an internal model based on RiskMetrics RiskManager system and adding specific capital charge for trading securities.

The details of the Bank's capital adequacy calculations under Basel 2 as at 31 December 2008 are shown below:

	BASEL 2 2008		BASEL 1 2007	
	BD '000	US\$ '000	BD '000	US\$ '000
As at 31 December				
Tier 1 Capital	202,363	538,200	190,338	506,218
Tier 2 Capital	22,089	58,747	61,666	164,005
Total Capital Base	224,452	596,947	252,004	670,223
Risk Weighted Exposure:				
Credit Risk	974,331	2,591,306	840,346	2,234,963
Market Risk	76,283	202,880	50,325	133,843
Operational Risk	112,284	298,628	–	–
Total Risk Weighted Exposure	1,162,898	3,092,814	890,671	2,368,806
Capital Adequacy Ratio		19.3%		28.3%
Tier 1 Capital Adequacy Ratio		17.4%		21.4%

	BASEL 2 2008		BASEL 1 2007	
	BD '000	US\$ '000	BD '000	US\$ '000
Based on average balances:				
Tier 1 Capital	171,333	455,673	176,207	468,636
Tier 2 Capital	47,664	126,766	57,962	154,154
Total Capital Base	218,997	582,439	234,169	622,790
Risk Weighted Exposure:				
Credit Risk	1,027,403	2,732,455	805,468	2,142,202
Market Risk	59,987	159,540	84,962	225,963
Operational Risk	106,277	282,651	–	–
Total Risk Weighted Exposure	1,193,667	3,174,646	890,430	2,368,165
Capital Adequacy Ratio		18.3%		26.3%
Tier 1 Capital Adequacy Ratio		14.4%		19.8%



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41. 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.

42. COMPARATIVES

The comparative figures have been reclassified where necessary to conform with the current presentation. Except as mentioned under Note 20 (d) the reclassification has not affected net income; total assets; and total liabilities and equity of the Bank.

43. 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.
- IFRS 8 "Operating Segments" effective for financial periods beginning on or after 1 January 2009.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" effective for financial periods beginning on or after 1 October 2008.
- Amendments to IAS 39 "Financial Instruments-Recognition and Measurement-Eligible Hedged Item" effective for financial periods beginning on or after 1 July 2009.

Amendments to existing standards made by the International Accounting Standards Board as part of its first annual improvements project. The effective date for these amendments vary by standard and most will be applicable for financial periods beginning on or after 1 January 2009.

The adoption of these standards and interpretations and other amendments to existing standards made by the International Accounting Standards Board as part of its first annual improvements project are not expected to have a material impact on the financial statements of the Bank.