



Notes to the Financial Statements

For the year ended 31 December 2008

In accordance with IAS 39, provision for impairment of loans and advances that are measured and recognized on a portfolio basis are collectively evaluated for impairment based on an incurred loss model.

The provisions and interest in suspense relate to loans and advances to non-banks.

In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis. During 2008, the suspension of interest income relating to such non-performing loans had an insignificant impact on the Banks' net interest income.

8. INVESTMENT SECURITIES

Investment securities comprises of the following:

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Available-for-sale securities	377,705	1,004,535	311,733	829,077
Investment at fair value through profit or loss	26,683	70,965	36,207	96,295
Total	404,388	1,075,500	347,940	925,372
Provision for impairment on available for sale debt securities	(5,212)	(13,862)	–	–
Total investment securities	399,176	1,061,638	347,940	925,372

A) Available for sale securities

I. Breakdown of quoted and unquoted securities

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Quoted:				
Debt securities	285,555	759,455	222,167	590,870
Equity securities	57,325	152,460	66,786	177,622
Provision for impairment on available for sale debt securities	(5,212)	(13,862)	–	–
Total quoted securities	337,668	898,053	288,953	768,492
Unquoted:				
Debt securities	19,347	51,455	19,347	51,455
Equity securities	15,478	41,165	3,433	9,130
Total unquoted securities	34,825	92,620	22,780	60,585
Total available-for-sale securities	372,493	990,673	311,733	829,077

Available-for-sale securities at 31 December 2008 include securities amounting to BD 31.82 million (US\$ 84.64 million) [31 December 2007:BD 18.14 million (US\$ 48.23 million)], sold under agreement to repurchase.



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ii. Breakdown between fixed rate and floating rate available-for-sale debt securities (net of provision for impairment)

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Fixed rate debt securities	111,771	297,263	53,074	141,154
Floating rate debt securities	187,919	499,785	188,440	501,170
Total	299,690	797,048	241,514	642,324

iii. Breakdown of available-for-sale debt securities by rating (net of provision for impairment)

The ratings given below are by established rating agencies.

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
AAA	116,348	309,436	37,867	100,710
AA	25,661	68,247	46,567	123,848
A	122,977	327,067	123,315	327,965
BBB	17,206	45,761	18,244	48,521
Not-rated	17,498	46,537	15,521	41,279
Total	299,690	797,048	241,514	642,323

B) Investments at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments in managed funds and capital protected notes as follows:

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Investments in managed funds	19,345	51,449	25,902	68,888
Investments in capital protected notes	7,338	19,516	10,305	27,407
Total	26,683	70,965	36,207	96,295

9. ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Accrued interest receivable	8,355	22,221	17,523	46,604
Accounts receivable & prepayments	1,043	2,774	807	2,146
Others *	3,111	8,274	3,835	10,199
Total	12,509	33,269	22,165	58,949

* Others include investment of BD 1.35 million (US\$ 3.58 million) [2007: BD 0.85 million (US\$2.26 million)] in an associate company - The Benefit Company BSC (c) in which the Bank has an interest of 34.84 %. The carrying amount represents the cost of the investment and the share of profits less dividends received.

* Others include BD 1.32 million (US\$ 3.51 million) [31 December 2007 : BD 1.32 million (US\$ 3.51million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at cost.



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10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and financial institutions.

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	BD'000
Current and call accounts	21,897	58,237	15,809	42,045
Term deposits	232,060	617,181	286,523	762,029
Total	253,957	675,418	302,332	804,074

11. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements represent available-for-sale securities of BD 31.82 million (US\$ 84.64 million) [31 December 2007: available-for-sale securities of BD 18.14 million (US\$ 48.23 million)] sold under agreement to repurchase.

12. CUSTOMERS' DEPOSITS

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Repayable on demand or at short notice	663,222	1,763,888	576,971	1,534,497
Term deposits	856,034	2,276,686	742,981	1,976,013
Total	1,519,256	4,040,574	1,319,952	3,510,510

13. ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Accrued interest payable	3,915	10,412	5,231	13,912
Creditors & account payables	2,727	7,253	1,576	4,191
Deferred income	942	2,505	647	1,721
Employee benefits	1,955	5,200	5,200	13,830
Others	2,138	5,686	1,144	3,051
Total	11,677	31,056	13,798	36,705

14. CASH AND CASH EQUIVALENTS

As at 31 December	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Cash and balances at central banks	82,398	219,144	53,538	142,388
Treasury bills	6,408	17,043	12,526	33,314
Placements with banks and other financial institutions	387,148	1,029,649	332,672	884,766
Total	475,954	1,265,836	398,736	1,060,468

Included in cash and balances at central banks is BD 63.1 million (2007: BD 38.7 million) maintained for the purpose of the cash reserve ratio requirement set by the central banks.



Notes to the Financial Statements

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15. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual notional principal amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank. In the absence of any process for accurate determination of credit risk of these undrawn loan commitments and contingent liabilities, the contract or notional principal amount has been considered as the credit exposure.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

As at 31 December	Notional principal amount 2008		Notional principal amount 2007	
	BD'000	US\$'000	BD'000	US\$'000
Contingent liabilities				
Liabilities on confirmed documentary credits	49,716	132,223	27,405	72,886
Guarantees:				
Counter guaranteed by banks	35,445	94,269	27,261	72,503
Others	27,787	73,902	37,106	98,686
Sub-total	112,948	300,394	91,772	244,075
Banking commitments				
Undrawn loan commitments	20,461	54,418	92,778	246,750
Forward commitments:				
Securities purchased	5,304	14,106	11,091	29,497
Interbank placings	9,411	25,029	6,207	16,508
Sub-total	35,176	93,553	110,076	292,755
Total	148,124	393,947	201,848	536,830

As at 31 December 2008, for the forward commitments, the remaining period to the contractual date was within 14 days. On the contractual date these commitments were carried out, and resulted in cash flows in and out of the Bank as represented by the notional principal amount.

16. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of



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replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value :

Figures in BD'000 As at 31 December	Contract / notional principal amount		Replacement cost		Fair value	
	2008	2007	2008	2007	2008	2007
Interest rate contracts						
Interest rate swaps	–	26,412	–	32	–	29
Sub-total	–	26,412	–	32	–	29
Foreign exchange contracts						
Outright spot and forward contracts	61,061	65,631	168	229	135	211
Options	139	1,413	–	17	(19)	(12)
Swap agreements	121,235	84,403	4	10	(17)	(13)
Sub-total	182,435	151,447	172	256	99	186
Total	182,435	177,859	172	288	99	215

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

Figures in BD'000 As at 31 December	2008			2007		Total
	Up to 1 year	1 to 2 years	Total	Up to 1 year	1 to 2 years	
Interest rate contracts						
Interest rate swaps	–	–	–	26,412	–	26,412
Sub-total	–	–	–	26,412	–	26,412
Foreign exchange contracts						
Outright spot and forward contracts	61,061	–	61,061	65,631	–	65,631
Options	139	–	139	1,413	–	1,413
Swap agreements	121,235	–	121,235	84,403	–	84,403
Sub-total	182,435	–	182,435	151,447	–	151,447
Total	182,435	–	182,435	177,859	–	177,859

17. CAPITAL COMMITMENTS

At 31 December 2008 commitments for capital expenditure amounted to BD 1.27 million (US\$ 3.38 million) [31 December 2007: BD 0.97 million (US\$ 2.58 million)].



Notes to the Financial Statements

For the year ended 31 December 2008

18. PROPERTY & EQUIPMENT

	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	23,740	63,138	9,721	25,854	34,222	91,016
Accumulated depreciation	–	–	(11,191)	(29,763)	(6,171)	(16,413)	(17,362)	(46,176)
Net book value at 31 December 2008	761	2,024	12,549	33,375	3,550	9,441	16,860	44,840
Net Book value at 31 December 2007	761	2,024	13,419	35,689	2,891	7,689	17,071	45,402

The depreciation charge for 2008 amounted to BD 1.82 million (US\$ 4.48 million) [2007: BD 1.53 million (US\$ 4.07 million)].

19. SHARE CAPITAL

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Authorised share capital				
1,500,000,000 (2007: 1,000,000,000) ordinary shares of 100 fils each	150,000	398,938	100,000	265,957
(At the extraordinary general meeting held on 12 October 2008, the Bank's authorised share capital was increased from BD 100 million to BD 150 million)				
Issued and fully paid share capital				
At 1 January: 648,000,000 shares of 100 fils each (2007: 540,000,000 shares of 100 fils each)	64,800	172,340	54,000	143,617
One for five bonus issue **	12,960	34,468	10,800	28,723
At 31 Dec 2008: 777,600,000 shares of 100 fils each (at 31 Dec 2007: 648,000,000 shares of 100 fils each)	77,760	206,808	64,800	172,340

** During 2008, a one-for-five bonus issue was made comprising 129,600,000 shares of 100 fils each by capitalisation of BD12.96 million (US\$34.47 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:

	2008			2007		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
As at 31 December						
Less than 1%	255,602,134	1,112	32.9%	214,040,526	1,097	33.0%
1% up to less than 5%	140,973,866	8	18.1%	116,439,474	9	18.0%
5% up to less than 10%	–	–	–	–	–	–
10% up to less than 20%	–	–	–	–	–	–
20% up to less than 50%	381,024,000	1	49.0%	317,520,000	1	49.0%
More than 50%	–	–	–	–	–	–
Total	777,600,000	1,121	100.0%	648,000,000	1,107	100.0%

49% of the Bank's share capital is held by the Bahrain Mumtalakat Holdings 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.



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20. RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the Law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital.

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 revaluation reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, an amount is transferred from the profit for the year to this reserve. The reserve represents the uncommitted amount of the donations and charities approved by the shareholders. During the year the Bank reclassified the remaining uncommitted balance of the donation and charity amount previously recorded in other liabilities to this reserve.

21. PROPOSED APPROPRIATIONS

The appropriations relating to the year 2007 were approved at the annual general meeting.

22. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

For the year ended 31 December

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Derivative assets held for risk management	524	1,394	323	859
Treasury Bills	576	1,532	1,295	3,444
Placements with banks & financial institutions	12,592	33,489	18,708	49,755
Loans and advances to customers	53,537	142,386	56,404	150,011
Loans and advances to banks	5,010	13,324	6,186	16,452
Investment securities	12,170	32,367	16,324	43,415
Total	84,409	224,492	99,240	263,936

b) INTEREST EXPENSE

For the year ended 31 December

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Derivative liabilities held for risk management	1,423	3,785	2,521	6,705
Deposits from banks and other financial institutions	6,934	18,441	9,913	26,365
Deposits from customers	29,090	77,367	42,990	114,335
Borrowings under repurchase agreements	906	2,410	1,650	4,388
Total	38,353	102,003	57,074	151,793



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23. OTHER INCOME

For the year ended 31 December

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
a) Fees and commission income				
Fees and commission on loans and advances	8,140	21,649	5,443	11,197
Commission on sale of managed funds	755	2,008	712	1,894
Other fees and commission	4,808	12,787	4,188	14,417
Sub-total	13,703	36,444	10,343	27,508
b) Other operating income				
Profit / (loss) on trading securities	(726)	(1,931)	(7)	(19)
Profit on sale of available for sale securities	2,250	5,984	1,704	4,532
Profit on fair value through P/L investment securities	(9,097)	(24,194)	3,299	8,774
Share dividend income	3,288	8,745	3,368	8,957
Profit on exchange dealing and transactions	3,856	10,255	2,850	7,580
Profit / (loss) on derivatives	39	104	(72)	(191)
Other income	3,291	8,753	1,379	3,668
Sub-total	2,901	7,716	12,521	33,301
Total other income	16,604	44,160	22,864	60,809

Other Income includes BD 0.57 million (US\$ 1.52 million) representing profits from associate recognized during the year.

24. STAFF EXPENSES

For the year ended 31 December

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
Salaries and allowances	13,479	35,849	13,649	36,301
Social Security & Gratuity	2,432	6,468	2,293	6,098
Housing & other benefits	1,771	4,710	1,556	4,138
Others	173	460	145	386
Total	17,855	47,487	17,643	46,923

25. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

	2008		2007	
	BD'000	US\$'000	BD'000	US\$'000
US Dollar (long position) - unhedged	226,201	601,598	313,728	834,383
UAE Dirhams (long position) - unhedged	25,920	68,936	104,136	276,957
Saudi Riyal (long position) - unhedged	165,913	441,258	47,837	127,226

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



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26. 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 Chief Executive Officer and persons directly reporting to him. Balances at the reporting date 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	
	2008	2007	2008	2007	2008	2007
As at 31 December						
Loans and advances	131,558	95,928	18,459	11,949	81	–
Treasury bills and bonds	34,857	65,140	–	–	–	–
Customers' deposits	62,633	32,927	26,342	18,311	1,620	6,156
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	30,225	16,734	6,138	5,216	–	–
For the year ended 31 December	2008	2007	2008	2007	2008	2007
Loans advanced	130,822	9,653	6,535	4,272	90	–
Loans repaid	60,858	6,232	7,907	4,869	9	–
Net (decrease) / increase in overdrafts	(34,334)	61,456	7,882	1,628	–	–
Treasury bills and bonds purchased	58,042	52,321	–	–	–	–
Treasury bills and bonds matured/sold	88,325	111,182	–	–	–	–
Interest income	6,511	7,977	635	842	1	–
Interest expense	352	673	518	98	24	156
Short term employee benefits	–	–	–	–	1,676	2,981
Post employment retirement benefits	–	–	–	–	551	966

27. FUND ADMINISTRATION

At 31 December 2008, administration of third party funds under investment amounted to BD 52.38 million (US\$ 139.30 million)[31 December 2007: BD 48.93 million (US\$ 130.14 million)].

28. GEOGRAPHICAL DISTRIBUTION

Figures in BD'000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2008	2007	2008	2007	2008	2007
As at 31 December						
Middle East	1,753,657	1,630,436	1,771,206	1,610,475	220,716	258,569
U.S.A.	150,698	84,778	1,741	2,587	1,833	588
Europe	113,138	173,625	40,680	31,157	99,941	120,509
Rest of the World	16,606	14,873	3,087	15,863	8,069	41
Total	2,034,099	1,903,712	1,816,714	1,660,082	330,559	379,707



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29. DISTRIBUTION BY SECTOR

Figures in BD'000 As at 31 December	Assets		Liabilities		Contingent liabilities and banking commitments	
	2008	2007	2008	2007	2008	2007
Government	311,218	203,890	156,843	97,130	27,808	43,725
Manufacturing / trading	237,866	189,486	201,867	151,746	20,209	26,685
Banks / financial institutions	863,287	925,260	560,418	531,304	254,016	229,360
Construction	144,345	104,619	15,226	13,671	23,875	33,383
Personal	288,962	271,076	766,617	775,319	2,387	1,712
Others	188,421	209,381	115,743	90,912	2,264	44,842
Total	2,034,099	1,903,712	1,816,714	1,660,082	330,559	379,707

30. 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 2008	Government		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
Assets								
Cash and balances at central banks	-	-	-	82,398	-	-	-	82,398
Treasury bills	6,408	10,169	-	-	-	-	-	16,577
Placements with banks and other financial institutions	-	-	-	410,483	-	-	-	410,483
Loans and advances	155,206	746	215,381	178,476	143,575	288,034	114,293	1,095,711
Investment securities	36,778	100,979	20,429	116,340	-	-	51,847	326,373
Other assets	541	361	2,056	2,432	770	928	4,076	11,164
Total assets	198,933	112,255	237,866	790,129	144,345	288,962	170,216	1,942,706
Contingent liabilities and banking commitments	27,808	-	20,209	71,581	23,875	2,387	2,264	148,124
Derivatives	-	-	-	182,435	-	-	-	182,435