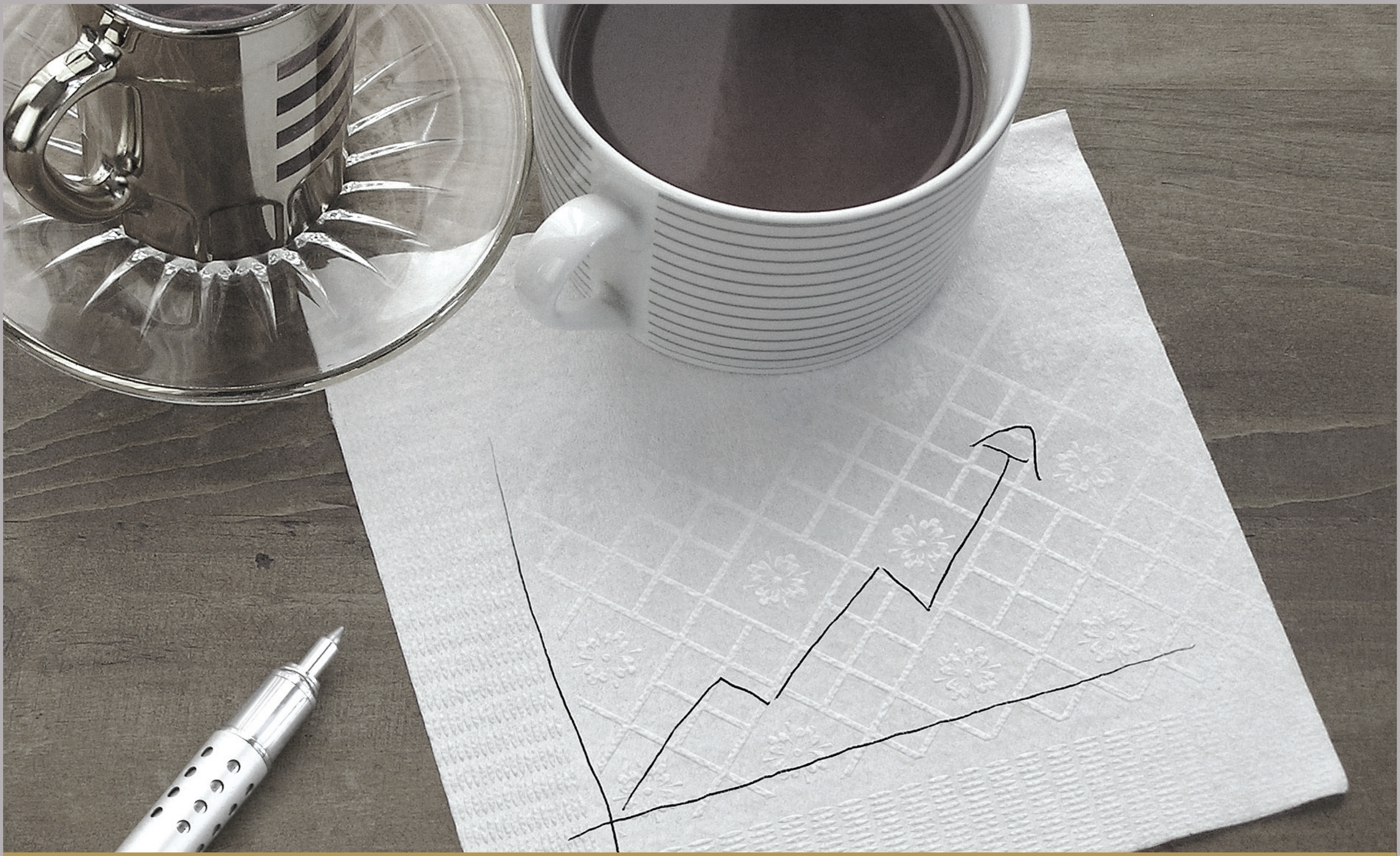


PROJECTION. PLANNING. PROGRESS
DOING BUSINESS THE PERSONAL WAY

بنك المستقبل

futurebank

ANNUAL REPORT 2009

Main Branch / Head Office

P.O.Box: 785
City Centre Building 199
Road 203, Block 304
Manama Town
Government Avenue
Kingdom of Bahrain

Tel:+973-17505000
Fax:+973-17224402
Swift Code: FUBBBHBM

Muharraq Branch

P.O. Box 22309
Bldg 263, Road 311
Muhurraq 203
Shaikh Khalifa bin Salman Avenue
Kingdom of Bahrain

Tel: +973-17322494
Fax: +973-17323644
Swift Code: FUBBBHBMMUH

Budaiya Road Branch

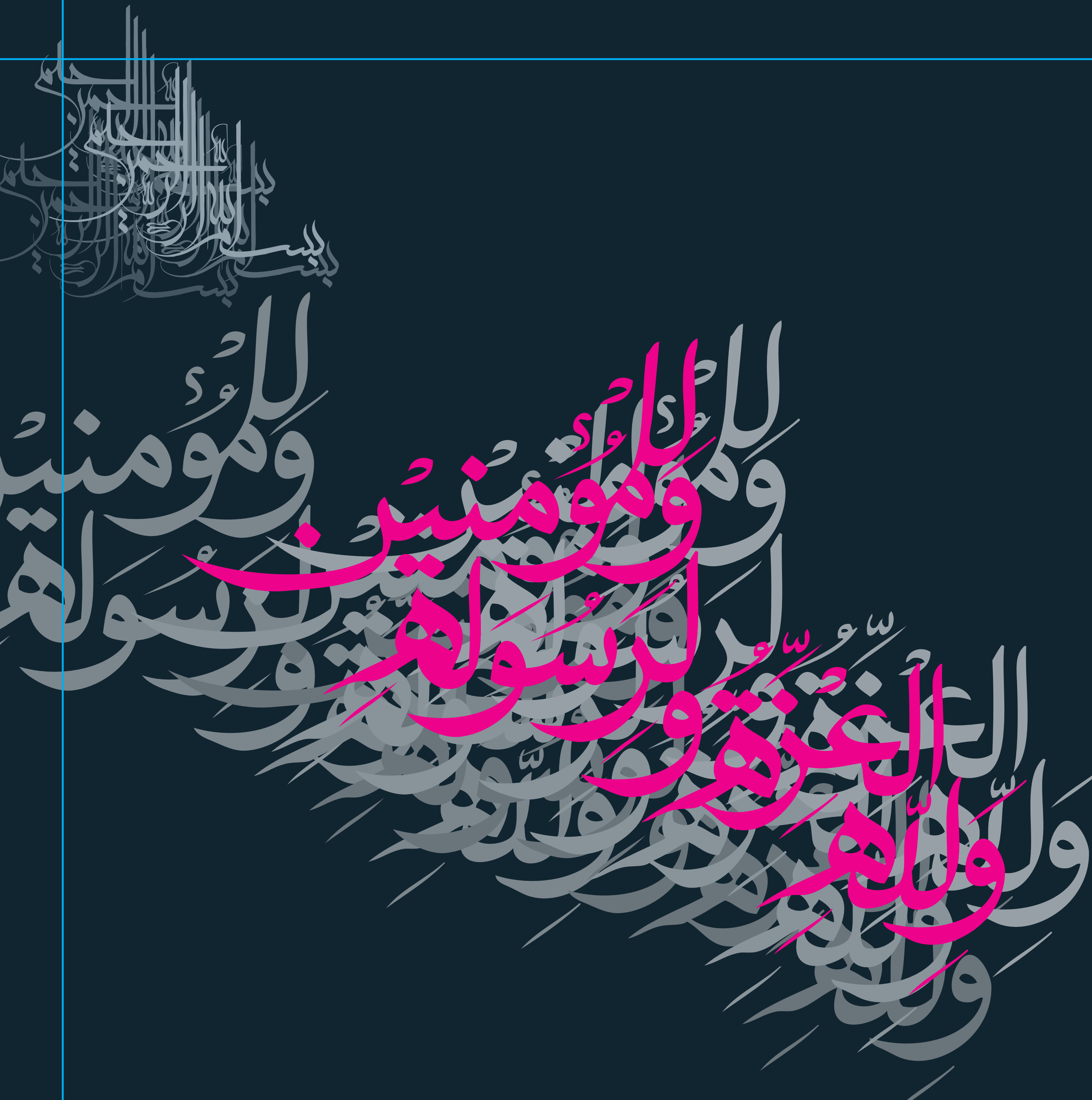
P.O.Box 70115
Shop No. 8 B
Country Mall
Budaiya Highway
Kingdom of Bahrain

Tel: +973-17596666
Fax: +973-17596111
Swift Code: FUBBBHBMSIT

Tehran Representative Office

No.25
Tandees Avenue
Africa Highway
Tehran
Islamic Republic of Iran

Tel: +9821-22053351,2
Fax: +9821-26201311



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Futurebank has adhered to best practices and embraced a prudent approach to planning for sustained profitability

A PERSONALIZED CULTURE CAN SET A BUSINESS APART.

In an ever changing world, where technology and automation continue to bring about great shifts in the ways that we interact, the art of being personal lives on as an irreplaceable virtue, upheld by those who seek to build closer ties.

Today, perhaps more so then ever before, businesses must commit to reaching out and connecting with a greater purpose, seeking to gain their customers' trust by acknowledging them as unique individuals, with vastly different needs, before catering to each with the highest degree of personal service, care and attention.

At Futurebank, we take pride in employing technologies which enable greater conveniences and accessibility to our unique brand of banking services, but refuse to abandon the most cherished practice of taking your business personally.

FUTUREBANK…still personal

We are resolute in our purpose and committed to providing premium banking services with a distinctly personal touch.

FINANCIAL HIGHLIGHTS

	2009	2008	2007	2006	2005
Income and Expenses (BD Millions)					
Net interest income	13.1	13.7	11.4	7.5	5.7
Other income	1.0	0.8	1.0	0.6	0.4
Total Income	14.1	14.5	12.4	8.1	6.1
Operating expenses	3.5	3.3	2.6	2.0	1.8
Profit before provisions	10.6	11.2	9.8	6.1	4.3
Net provision / write-back	2.4	(0.5)	(1.0)	(0.0)	0.5
Net profit/(Loss)	8.2	10.7	8.8	6.0	4.8
Financial Position (BD Millions)					
Total assets	547.5	547.5	498.1	383.1	150.6
Net loans	118.4	113.1	83.3	65.6	53.8
Placements	358.9	381.0	340.8	302.4	88.8
Investments	12.4	8.8	10.2	5.5	0.0
Total deposits	470.3	478.2	434.0	334.5	105.0
Customer deposits	108.7	95.9	67.7	54.9	49.7
Shareholder’s equity	73.7	63.3	58.2	46.0	44.4
Ratios (percentage)					
Profitability					
Net income/Average equity	12.2	17.8	17.9	14.1	11.4
Net income/Average assets	1.5	2.1	2.4	2.5	3.1
Operating expenses/Total income	24.8	23.0	21.0	25.4	29.3
Earning per share (BD)	0.152	0.237	0.209	0.162	0.128
Liquidity					
Customer deposits/Net loan and advances	91.8	84.7	81.2	83.7	92.3
Loans and advances/Total assets	21.6	20.7	16.7	17.1	35.8
Liquid assets/Total assets	54.9	56.8	53.4	72.4	41.9
Capital Adequacy					
Capital Adequacy	21.0	15.2	20.0	15.7	35.6
Equity/Total Assets	13.5	11.6	11.7	12.0	29.5

CHAIRMAN'S STATEMENT

Our management team's focus is aligned with Futurebank's commitment to solidifying our balance sheet within the external economic landscape with a view to our continued growth and profitability.

On behalf of the Board of Directors of Futurebank, it is with great pleasure that I present the audited financial results for the year ended 31 December, 2009, which reflect the bank's consistent performance throughout the year under review.

Futurebank was established as a joint venture between three highly reputed financial institutions - namely Bank Saderat (Iran), Bank Melli (Iran) and Ahli United Bank (Bahrain). Aligned with its strategic mission, Futurebank aims to exploit the combined strength of the national economies which its constituents represent. The bank's major shareholders are, between them, members of a vast global network within the GCC, European and Far Eastern markets, effectively extending their reach beyond the bank's regional footprint.

In 2009, the global financial community was besieged by the worst financial crisis since the "Great Depression." The ripple effects of this major downturn moderately impacted the region, as defaults on loan repayments across various financial institution portfolios were recorded.

Futurebank remained committed to building upon its long-term strategic goals, extending its capabilities to match local market needs.

Within this challenging environment and taking stock of the grave structural issues facing the world in general and regional economies in particular, the bank's management focused their energies on retaining a conservative and diligent approach to solidifying Futurebank's Balance sheet. These efforts resulted in the successful realization of a mix of high quality asset portfolio largely impervious to the economic shock waves being felt globally.

Moreover, Futurebank has been investing substantially in its infrastructure over the past years. Development initiatives have primarily been focused on improving the bank's information technology capabilities, re-engineering its operations, strengthening risk measurement and control measures, and enhancing all processes related to the effective recruitment, training and culturing of its professional staff.

These ongoing developments are envisaged to reach fruition in the year 2010, enabling the bank to offer a wider spectrum of retail and corporate products within an environment of measured and controlled risk. I am confident that the dedicated efforts of the management team towards employing the foremost technological means and the best banking practices available will direct Futurebank towards successfully achieving its envisioned growth plans within the given time frame.

Throughout the financial year 2009, Futurebank remained committed to building upon its long-term strategic goals, prudently extended its capabilities to match local market needs in a bid to increase its customer base. New initiatives such as launching into the local consumer retail banking products and services market will serve well to augment the bank's presence and business activities within the Kingdom of Bahrain.

In 2009, Futurebank also strived to retain its competitive edge in the Iranian market, which promises to be a significant source of business in the near future. The bank continues to fortify its reputation as an Iranian market specialist, extending its unique ability to pass on its beneficial expertise to its customers. We continue to hold a firm belief that in this highly transformational and unpredictable world economy, organizations such as Futurebank, that are unified in their culture and able to operate with a strong sense of purpose, are more likely to succeed in their endeavors.

Futurebank's financial performance for the year also owes its success to the well-regulated operating environment in Bahrain, which has aided in the Kingdom's uniquely limited exposure to any major financial fallout during 2009.

Concurrently, a significant drop in inflation rates in the Iranian local market from almost 27% in the latter part of the year to the current 7-9% is also conducive to a more stable economic environment for the bank's operations, spurring a host of growth opportunities for Futurebank and its stakeholders.

Having now weathered what we believe to be the worst period of the downturn, and with signs of optimism returning to the global financial markets, we at Futurebank remain cautiously optimistic about the future.

On behalf of our shareholders, the Board of Directors acknowledges with great appreciation the contributions of Futurebank's management and staff which have worked endlessly to maintain the highest standards of operational excellence across the bank's operations. We also take this opportunity to thank our shareholders, customers and correspondents for their valuable association, while extending out gratitude to the authorities in Bahrain, in particular, the Central Bank of Bahrain for their continued support.

By the grace of Allah the Almighty, the Board of Directors confidently endorses the ongoing developments which are being realized at Futurebank and optimistically looks forward to achieving greater prosperity and success well into the future.

Dr. Hamid Borhani
Chairman

BOARD OF DIRECTORS

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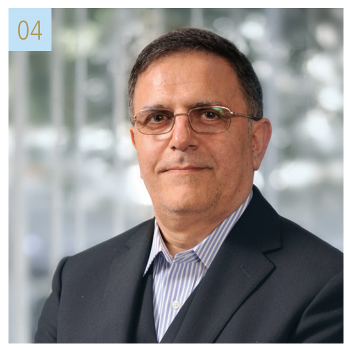

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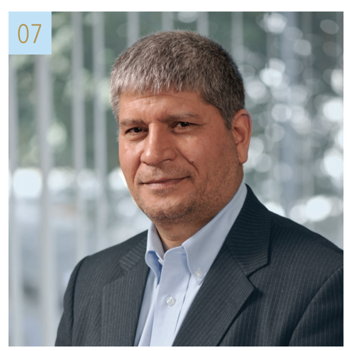

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01 **Dr. HAMID BORHANI**
Chairman

Board Member since 2006
Vice Governor
Bank Markazi Jomhuri Islami Iran

02 **Mr. MAHMOUD REZA KHAVARI**
Deputy Chairman

Board Member since 2009
Chairman and Managing Director
Bank Melli - Iran
Chairman, Melli Bank PLC - UK
Chairman, Melli Bank - Moscow

03 **Mr. A. AZIZ AHMED A. MALEK**
Deputy Chairman

Board Member effective 2007
Non Executive Director
Netlinks Consultancy
Telecommunications - Bahrain

04 **Dr. VALIOLLAH SEIF**
Chief Executive Officer & Managing Director

Board Member since 2004

05 **Mr. ADEL AL MANNAI**
Director

Board Member effective 2007
Chief Executive Officer
Investors Bank - Bahrain

06 **Mr. GHOLAM H. ZAFERANI**
Director

Board Member since 2004
Chief Executive Officer & President
Saman Bank Corporation - Iran

07 **Mr. GHOLAM SOURI**
Director

Board Member since 2004
General Manager,
International Division
Bank Saderat - Iran

08 **Mr. SHAHRAM RAZAVI**
Deputy CEO & Director

Board Member since 2004

09 **Mr. ABBAS FATEMI TORSHEZI**
Deputy CEO & Director

Board Member since 2004

GROUP MANAGEMENT

Dr. Valiollah Seif

Chief Executive Officer & Managing Director

PhD in Accounting & Finance from Allameh Tabatabaei University. Over 28 years of banking experience as Finance Director, Board Member of Bank Sepah, Chairman of the Board & Managing Director of Bank Mellat, Bank Saderat, Bank Sepah and Bank Melli Iran. Joined the Bank in 2006.

Mr. Shahram Razavi

Deputy Chief Executive Officer & Deputy Managing Director - Business Development, Treasury & Investment and Retail Banking

MBA Roosevelt University, USA. Over 28 years of banking experience as Economics Expert, Acting General Manager in Bank Saderat Iran, General Manager in Bank Saderat Iran; Athens Branch & Paris Branch & General Manager International Division. Joined the Bank in 2006.

Mr. Abbas Fatemi

Deputy Chief Executive Officer & Deputy Managing Director - Risk, Finance & Operations

BA in English Language, Tehran University. Over 40 years of banking experience in Bank Melli Iran. Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch for 7 years. Joined the Bank in 2004.

Mr. Vistasp Burjor Sopariwalla

Head of Finance

BCom, CA. Over 20 years of banking experience spanning Financial Control, Operations & Treasury services holding successively senior managerial positions. Prior work experience primarily with BNP PARIBAS, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. Joined the Bank in 2006.

Mr. Hossein Rezaee Nico

Head of Information Technology

Master Degree in International Business from Wollongong University, Australia. Over 20 years of experience in banking; Treasury & Trade Finance and Information Technology Systems at Bank Melli Iran, Dubai and Commercial Bank of Dubai, Dubai. Joined the Bank in 2006.

Mr. K. Suresh Kumar

Head of Corporate Banking

CAIIB from Indian Institute of Bankers, Mumbai. Over 24 years of banking experience mainly in Corporate Credit-Marketing, Appraisal, Risk & Remedial Management at United Bank of India, Oman International Bank, IDBI Bank and as Senior Vice President at Mizuho Corporate Bank. Joined the Bank in 2005.

Mr. Mohan Shenoy Yarmal

Head of Treasury & Investment

Master's Degree in Commerce (M.Com) from the University of Mysore, India. Over 32 years of wholesale banking experience holding various senior positions in Bank Saderat Iran, OBU, Bahrain. Joined the bank since inception.

Mr. Jalil Al-Shehabi

Head of Compliance & MLRO

Over 28 years of Banking experience and holding various Senior Managerial positions mainly Banking Operations, Internal control, Internal Audit and compliance / MLRO at various Banks in Bahrain. Joined the Bank in March 2007.

Mrs. Munira Moh'd Taqi Noorulla

Head of Human Resources & Administration

Over 37 years of banking experience and holding various banking positions spanning from Chief Accountant, Manager Loan, Credit & Human Resources at Bank Melli Iran, Bahrain. Joined the Bank since inception.

Mr. Milind Vinayak Kamat

Head of Risk

BCom, FCA, Chartered Accountant. Over 23 years of banking experience, holding various positions in various banks; Union Bank of India, Bank of Bahrain & Kuwait, Mumbai and as Vice President at Calyon Bank. Joined the Bank in 2005.

Mr. Kesavan Murali

Head of Operations

M.Com, CAIIB, ACIB (London), ICWA, CDCS. Over 26 years of banking experience and holding various positions in nationalized and MNC banks in India and Bahrain. Joined the bank in April 2008.

Mr. U.P. Raviprakash

Head of Internal Audit

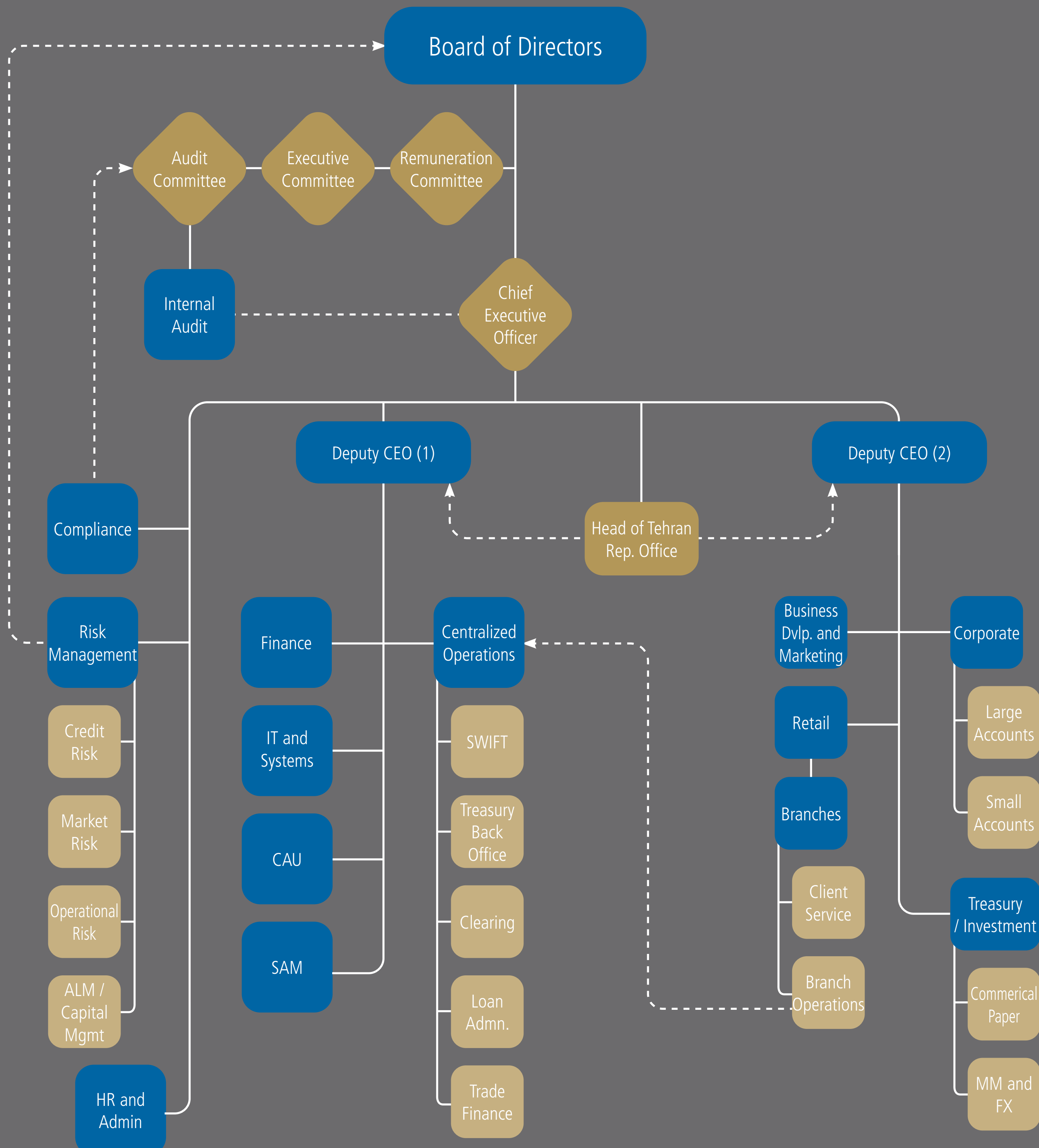
B.Sc in Maths from Chennai University, India, CAIIB from Indian Institute of Bankers. Over 26 years of banking experience mainly in Internal Audit, Corporate Banking / SME Credit and Retail Banking with State Bank of India. Had held senior management positions in State Bank of India and worked as Assistant General Manager. Joined the bank in November 2008.

Mr. Fereidoun Mohd Abghari

Representative, Tehran Representative Office

Over 40 years of banking experience and holding various Managerial positions at Bank Melli Iran, Tehran & United Arab Emirates. Joined the bank in 2005.

BOARD COMMITTEE MEMBERS & ORGANIZATION CHART



BOARD COMMITTEES

Executive Committee:

Mr. Abdulaziz Abdulmalek - Chairman of Executive Committee

Mr. Mahmoud Reza Khavari, Dr. Valiollah Seif

Board Audit Committee:

Mr. Gholam H. Zaferani - Chairman of Audit Committee

Mr. Gholam Souri, Mr. Abdulaziz Abdulmalek

Mr. Vistasp Sopariwalla - Corporate Secretary

Remuneration Committee:

Dr. Hamid Borhani, Mr. Mahmoud Reza Khavari, Mr. Abdulaziz Abdul Malek

TERMS OF REFERENCE OF THE VARIOUS COMMITTEES

BOARD COMMITTEES

Executive Committee

Deputise for the Board on matters needing decision specifically delegated to it. Approve policies, objectives and strategies. Consider periodic management reports on the Bank's performance including financial & risk management reports.

Audit Committee

Assists the Board of Directors in discharging its responsibilities relating to the bank's accounting policy, internal audit controls, compliance procedures, risk management functions. Ensures the integrity of the financial statements, reviews the performance of the internal audit function & liaises with the external auditors and regulators.

Remuneration Committee

Sets the guidelines for performance evaluation, salary, bonus, managing the bank's compensation arrangement, and decision making for executive management.

MANAGEMENT COMMITTEES

All the below mentioned meetings are chaired by the CEO & the Managing Director. All the meetings are held on a monthly basis, except for the Senior Management Committee meeting held on a fortnightly basis and the Senior Credit Committee meeting which is held once every week.

Senior Management Committee

Reviews and monitors progress on strategic initiatives, including regulatory, financial, operational and compliance issues.

Asset Liability Committee

Sets guidelines for the overall management of the liquidity risk & interest rate risk; determines the funding strategy of the bank in order to maximize net interest income at minimal risk.

Senior Credit Committee

Implements the Credit Policy as authorized by the Board; inclusive of approval of the credit related proposals, renewal of facilities, business services and reviews new credit related products.

Risk Management Committee

Oversees the implementation, interpretation and follow up of the risk policy & establishes guidelines for all lending activities to promote a sound risk culture within the bank.

Information Technology Committee

Reviews and manages the overall IT strategy, with a focus on the projects under implementation and provides a forum for user-IT interface.

Disclosure Committee

Enables the bank in adhering to the disclosure requirements & provides guidelines to be followed for the relevant disclosures, required as per regulation.

MAJOR SHAREHOLDERS, VOTING RIGHTS & DIRECTOR'S INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank through its Trustee arrangements with Dana Trust	Bahraini	18,850,000
Bank Saderat Iran	Iranian	18,850,000
Bank Melli Iran	Iranian	18,850,000

Distribution schedule of each class of equity security, setting out the number of holders and percentage in the following categories:

Categories	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	------	------	------
1% up to less than 5%	------	------	------
5% up to less than 10%	------	------	------
10% up to less than 20%	------	------	------
20% up to less than 50%	56,550,000	3	100
50% and above	------	------	------
Total	**56,550,000**	**3**	**100**

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary Shares 56,550,000	3	56,550,000

Directors' Interest and Details of Shareholding by Directors and their related parties:
None of the Directors' or their related parties had any shareholding in the Bank as at 31 December, 2009

CEO'S STATEMENT & MANAGEMENT REVIEW

....a Net Profit of BD 8.2 million in 2009 reflects the strategy of prudence and extra due diligence adopted by the bank amidst highly volatile economic conditions....we will continue to implement growth including steps which complement our customers' needs and aspirations.

Futurebank's newly adopted three year strategy aims to reap the benefits of the expected recovery as and when it materializes.

I am pleased to report that Futurebank has recorded a Net Profit of BD 8.2 million in 2009. Although this figure fell short of the Bank's Net Profit achievement of BD 10.7 million in the previous year, it reflects the strategy of prudence and extra due diligence adopted by the bank amidst highly volatile economic conditions, brought about by the global & regional turmoil in the banking systems around the world.

OPERATING ENVIRONMENT

The past year has posed many challenges for banks and the financial community in general, as regional economies experienced a sharp drop in economic activity, depressed real estate prices, rising bad debts and an overall sense of reduced confidence in financial institutions.

Amidst this unfavorable climate, some GCC countries continued to roll out substantial infrastructural spending, utilizing their vast foreign currency reserves accumulated well before oil prices plummeted in 2008. This policy enabled GCC economies to deter a crisis of catastrophic proportions.

For the upcoming year 2010, the region's economies are poised to benefit from stable oil prices and a recovery, albeit modest, is expected to materialize. Bahrain in particular was able to weather the worst of the global financial crises due to its local real estate market's aversion to high levels of speculative activity. The Bahraini Government has not encouraged speculative activities and its prudent fiscal and monetary policies have proven to be largely successful.

In light of the foreseeable general economic climate, Futurebank has adopted a new three year strategy, with a view to reap the benefits of the expected recovery as and when it materializes. With oil prices rebounding back to the US$ 70-80 per barrel mark, wide spread concerns about the effects of low oil revenues (as witnessed last year) are now slowly dissipating. This upward indicator serves to inspire a staging ground for Futurebank, wherein the Bank can confidently proceed to follow through on its expansion path.

OPERATIONAL ACHIEVEMENTS

In 2009, Futurebank focused on strengthening its operational stance within Bahrain and enhanced its services to meet the needs of its growing customer base. As a token of its commitment to Bahrain, the Bank took on the initiative of preparing itself for the launch of a number of competitive retail banking products.

In tandem, the expansion of off-site ATMs in Bahrain remained well underway throughout the year, serving as a testament to the Bank's long-standing commitment towards extending its coverage in all critically populated and commercially viable city centers. Further infrastructural developments aimed at enhancing Futurebank's image

CEO'S STATEMENT & MANAGEMENT REVIEW cont...

and stance in the local market include our state-of-the-art Head Quarter building, to be situated in Seef. This large scale project remains on schedule towards completion.

In collaboration with a specialist branding firm, Futurebank also embarked on an insightful internal culturing program, aimed at identifying the Bank's core strengths, beyond its visible and tangible resources. The exercise was commissioned to sustain the Bank's organizational cohesion and carry forward its progressive past and spirit in a meaningful manner. The program was purpose designed to enhance the Bank's performance, via the infusion of a robust value system which would inspire "people transformation" within its ranks. This concept became the guiding light for a comprehensive brand architecture strategy, which underscores Futurebank's renewed promise to its customers - "Still Personal".

CORPORATE BANKING

Futurebank's corporate banking strategy is driven by its vision of acting as a financial bridge which enables greater possibilities for trade and capital flows between the Islamic Republic of Iran and Bahrain in particular, and the Islamic Republic of Iran and the GCC in general.

The Bank provides client-centric banking solutions and offers a complete range of products and services designed to meet the requirements of Large and Medium Corporate clients, as well as High Net worth Individuals in Bahrain. These include working capital, trade finance and term loan products and facilities.

The Bank's international banking activities focus on wholesale banking in Bahrain and across the region, ranging from the origination of syndication deals for large corporate / government organizations, banks and financial institutions to participation in syndication deals arranged by other reputed international banks. The Bank is also involved in the selective purchase and sale of financial assets through Master Risk Participation Agreements (MRPAs) from / to other market participants.

Futurebank's corporate banking strategy is based on providing comprehensive and customized financial solutions to our corporate customers mainly in Bahrain, GCC & Iran. The Bank offers a various corporate banking products including Bahraini Dinar and Foreign Currency Debt, working capital credit, structured financing, syndication and transaction banking products and services.

In 2009, the Bank continued providing high quality syndication facilities to its clients at competitive rates. The Bank's expertise in syndicated loans enhanced its capabilities towards participation in other prospective syndications.

RETAIL BANKING

In line with its expansion strategy, Futurebank decided to enlarge its Retail Banking base in order to expand its presence and visibility in the Kingdom of Bahrain. As a first step, the Bank has set up a separate Retail Banking structure, which has already commenced with the development of various asset and liability products which are specifically tailor made to cater to the requirements of its retail customers.

A wide spectrum of retail banking products centered on home / mortgage finance, personal loans and auto / vehicle financing have already been finalized and will be launched in the very near future. The Bank through its newly created retail outfit will be aggressively marketing these products in order to register the growth which

it envisions in the retail banking business. In the years to come, Futurebank will remain focused on expanding its bouquet of product offerings, cross selling, and strengthening the effectiveness of its customer services platform, to gain a respectable share of the local retail banking scene.

INFORMATION TECHNOLOGY

Futurebank's commitment to deploying cutting edge technology witnessed numerous developments and upgrades in the bank's IT investments. In 2009, the bank migrated to a more sophisticated Trade Finance software platform to improve its functional capabilities and provide increased efficiency towards servicing its clientele.

The Introduction and implementation of a new filtering & reporting software towards greater control over money laundering ensured that Futurebank kept in compliance with a higher regulatory environment.

In addition, the implementation of our new state-of-the-art Core banking software is currently underway, in line with the Bank's commitment to continuously extending better customer services enabled by the latest technological advancements.

RISK MANAGEMENT

Futurebank prioritized risk aversion in 2009 by establishing a comprehensive itinerary of standards towards calculating its collective Impairment provisions, based on the probability of defaults.

A new Operations Risk framework was also developed, wherein Operational Risk is mitigated through a set of internal controls, which effectively become a part of the Bank's Standard Operating Procedures (SOPs). The Bank has been successful in implementing dedicated software for monitoring KRIs and loss events. Data is gathered by business coordinators and validated by their respective supervisors before being fed to the software. Any threshold breaches are swiftly identified and reported for suitable action.

In addition, Internal Capital Adequacy Assessment Process (ICAAP) was formally initialized within the Bank. This initiative measures the Bank's internal capital adequacy requirements after weighing its capital base

to various parameters and scenarios. This practice will ensure that no undue strains are levied on the capital adequacy requirement of Futurebank and that risk is duly mitigated by again subjecting the capital against certain threshold limits fixed within the Bank.

The Bank besides improving its corporate rating model, has also implemented separate ratings model for retail banking and banks in order to enhance the credit risk assessment of our customers belonging to different classes.

HUMAN RESOURCES

At the forefront of Futurebank's ambitious growth and development plans remains our ongoing commitment to recruiting and retaining high caliber professionals, to guide the course of the Bank's core activities.

Progress in this field included furthering the skills of employees, to enable them to adapt to the ever changing growing requirements of the financial industry in general and the banking industry in particular.

Staff training and development initiatives were intensified with teams participating in 44 professional training programs, ranging from banking, accounting management, risk management and IT studies, in conjunction with external professional courses which were mandated for senior staff members.

FUTURE OUTLOOK

Following the dismal shockwave of October 2008 and the subsequent manifestation of the adverse financial scenario triggered by the collapse of some of the region's most significant business conglomerates, Futurebank has adhered to best practices and embraced a prudent approach to planning for sustained profitability.

The Bank has temporarily curtailed its ambitious expansion plans, until the signs of economic recovery become more evident, while remaining committed to enhancing the availability of its products and services within its target markets as a long term goal. As a mandate; we envision this process to continue well into the upcoming years and beyond.

Futurebank will continue to honor its commitment to service the burgeoning economies in Iran and the Kingdom of Bahrain, and shall strive to preserve its reputation for acting in the best interest of its customers and shareholders. Enabled by its progressive brand architecture and committed to delivering on its brand promise of "Still Personal", Futurebank will continue to create new inroads into the retail segment of the local market during the upcoming years. We are resolute in our purpose and committed to providing premier banking services with a distinctly personal touch.

Remaining steadfast on the strategic path set out by the Board of Directors of the Bank, we will continue to implement growth inducing steps which compliment our customers' needs and aspirations.

Dr. Valiollah Seif
Chief Executive Officer & Managing Director

FINANCIAL REVIEW

INCOME STATEMENT

The year 2009 witnessed a fair degree of financial turmoil settling into the region. Certain sectors in regional markets were indirectly and inadvertently affected, particularly real estate, wherein property values dropped down to more realistic levels. Against this daunting back drop and the global economy's inability to revert to a sizable recovery, Futurebank's performance in key areas sustained quite commendably, with its fundamentals remaining resiliently sound.

Within this context, the Futurebank's Net Profit declaration for the year registered at BD 8.2 million, 23.3% lower than its net profit achievement of BD 10.7 million in the previous year. Considering the ongoing financial crisis being faced by the financial world in general, this profitable streak speaks volumes for Futurebank's robust operating performance, which was primarily attributable to the sustainable growth realized across all of the Bank's major business banking activities.

Futurebank increased its capital base by way of a Rights issue to the extent of BD 11.3 million in the first quarter of 2009. This coupled with the lower net profit earned by the Bank during the year, saw its Return on Average Equity ratio rendering a decline as compared to the previous year. Consequently, the Return on Average Equity ratio stood at 12.2% on a higher capital base for the full year, as compared to 17.8% in the previous year 2008.

In spite of the challenging operating environment witnessed throughout the year 2009, the Bank maintained its operating income at BD 14.1 million, rendering only a marginal decline from the BD 14.5 million which was established last year. This indicates a firm resilience in the operating income of the Bank and its ability to sustain itself. Overall, this financial performance reflected upon the Bank's continued growth across all principal business activities and its ability to retain substantial liquidity, with cash and placements with the Central Bank aggregating to BD 42.4 million.

The Bank's net interest income also remained steady at BD 13.2 million as compared to BD 13.7 million in the previous year. The recent regulatory changes taking shape across global financial markets served well to inspire optimism, encouraging individual markets to overcome the ongoing financial crisis.

Taking a closer look at the markets which Futurebank operates in, margins remained under pressure, as the Bank's interest earnings were principally sustained on the strength of a higher loan portfolio, with increased focus on the local market and a selection of large corporate clients in Iran, seeking to finance major Iranian projects. This portfolio, along with the prudent utilization of liquidity positions and the deployment of net available funds, resulted in a net interest margin of 2.4%, as compared to 2.5% in the previous year.

Moreover, fee and commission income together with other operating income witnessed a significant 18.6% rise in 2009, on a year-on-year basis, with containment over the growth of expenses during the year. This was mainly derived from commission income, earned on the trade finance portfolio, together with fresh financing deals carried out by the Bank in conjunction with companies based in Iran. Some note-worthy corporate deals finalized within Bahrain with major clients also contributed.

Despite all efforts, the overriding global turmoil currently being witnessed caused the Bank to report a net minor loss of BD 0.06 million in foreign exchange for the current year. A similar loss of BD 0.1 million was realized in the previous year also. Together with foreign exchange profits, the Bank's non-interest income during 2009 represented a contribution of 6.8 per cent (BD 1.0 million) to total income, as compared to 5.4 per cent (BD 0.8 million) in the previous year.

Although the Bank's operating expenses increased from BD 3.3 million to BD 3.5 million, for a comparative 5.3 per cent increase over the previous year, they were mainly allocated to the rising costs of staffing the Bank's operations. Despite the increase, the cost to income ratio stood at only 24.8%, as compared to 23% in 2008 - notably one of the lowest figures in the industry, and a true testament to the Bank's operational efficiency and ability to contain revenue expenditures.

Futurebank follows the International Accounting Standard (IAS) 39 for the provisioning requirements of its non-performing portfolio. The Bank significantly increased its provision requirements during the year towards a healthier and a stronger balance sheet. Consequently apart from providing for specific provisions to the extent of BD 0.8 million in the current year, up from BD 0.03 million in the previous year, the Bank made a collective impairment provision of BD 1.6 million during the current year, up from BD 0.4 million in the previous year. The Bank now holds a collective impairment provision of BD 2.9 million as recorded at the end of the current year. However the provision coverage ratio as of year-end 2009 stood at 55.7% when compared to 67.8% recorded in the previous year. This is due to the fact that the Bank holds significant assets as collateral in regards to many of these facilities.

BALANCE SHEET

The Bank's balance sheet has remained stable, registering the same BD 547.5 million figure which was recorded in the previous year.

Throughout the year, Futurebank adopted a flexible approach to its asset mix which was instrumental in yielding better returns. The Bank's asset allocation model has continued to focus more on the loans & advances portfolio comprising 21.6% of its balance sheet, up from 20.7% in the previous year and the lucrative Bills discounted under the Bank's portfolio, which now comprises 30.5% of its Balance sheet at year-end, as compared to 22.8% in the previous year.

The Bank's net loans and advances to customers rose up from BD 113.1 million to BD 118.4 million. This BD 5.3 million increase shows a modest gain of 4.7% during the year, as compared to the previous year's 35.8%. During the year, the Bank slowly shifted its focus on booking loans within the Bahraini and GCC markets, whilst maintaining a consistent flow to its primary market in Iran. This strategy will continue to be utilized towards achieving further growth in loans and advances.

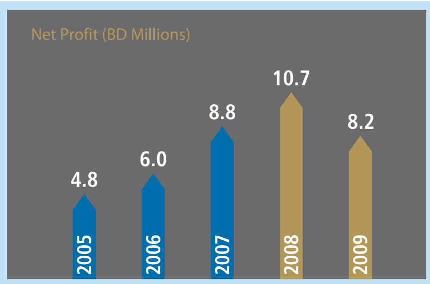
The Inter-bank portfolio now comprises 35% of the Bank's total assets, compared to 46.8% in the previous year. A sum of BD 12.4 million constituted specific investments which the Bank made in high yielding Iranian Bonds. These investments are classified under the "Available for Sale" (AFS) and the "Held to Maturity" (HTM) category as per IAS 39. The Bank does not foresee any risks associated with these securities.

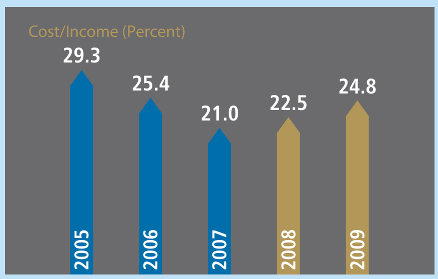
Inter-bank deposits continue to form major sources of funding for the Bank towards its Inter-bank portfolio. The ratio of Inter-bank deposits to total liabilities and the shareholders fund stood at 66.0%, as compared to 69.8% in the previous year. For the year ended 2009, the loans to customer deposit ratio including medium term loan facilities availed by the Bank, stood at 75.2%, compared to 88.6% in the previous year, to reflect better utilizations.

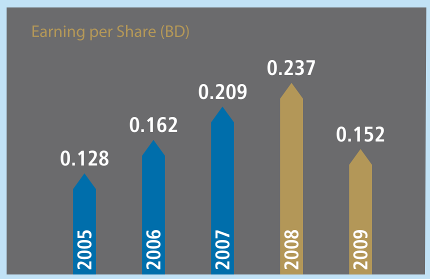
Equity before appropriation increased to BD 73.7 million at the end of 2009, up from BD 63.3 million at the end of the previous year. Equity to total assets accounted for 13.5% of the total assets of the Bank, as compared to 11.6% in the previous year.

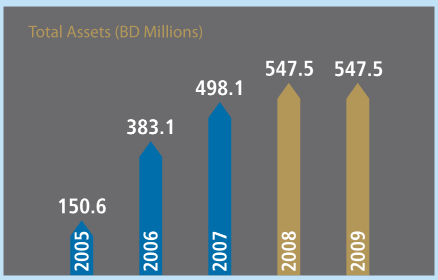
Kingdom of Bahrain is expected to grow at a moderate pace, benefitting from its balanced economic structure. This is despite its banking, oil and manufacturing sectors witnessing the adverse effects of the global economic downturn. The United Arab Emirate's outlook is weighted down by concerns over its real estate market, as well as the debt levels incurred by the Emirate of Dubai.

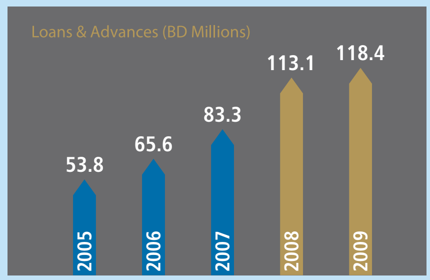
Taking stock of the prevailing conditions, Futurebank will strengthen its focus towards sectoral funding and has been proactively ensuring the maintenance of strong liquidity and capital positions to grow and expand both its business, as well as its customer base. Measures to ensure stringent adherence to the capital requirements regulations are in place, and compliance with the capital adequacy standards towards the new Basel-II requirement, along with its Pillar III disclosures are also are being enforced. The Bank's capital adequacy ratio stood at a much higher figure of 21.0% in 2009, as compared to 15.2% in the previous year. This figure exceeds the minimum requirement of 12% prescribed by the Central Bank of Bahrain (CBB) for banks operating within the Kingdom of Bahrain. The higher ratio achieved in the current year can partly be credited to the fresh infusion of Capital to the extent of BD 11.3 million (USD 30 million), which was contributed in equal proportion by existing shareholders. The above ratio is based on the guidelines issued by the CBB, in line with the Basel committee standard for measuring risk weighted assets.

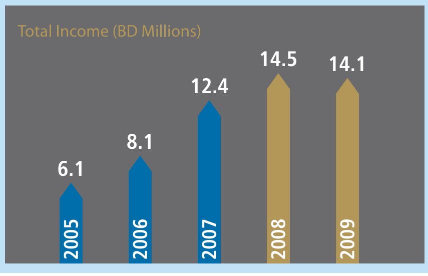


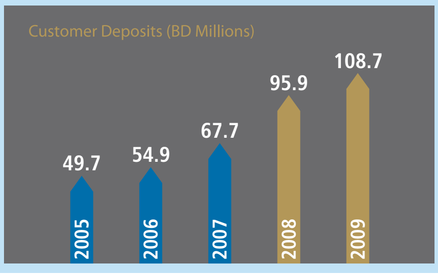


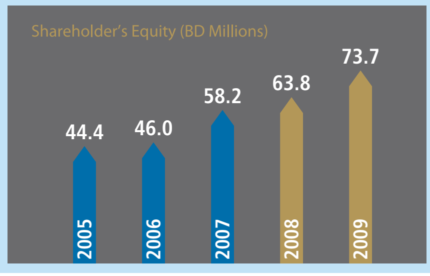












Auditors' Report to the Shareholders of Futurebank B.S.C. (c)

We have audited the accompanying financial statements of Futurebank B.S.C. (c) ("the Bank"), which comprise the statement of financial position as at 31 December 2009 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Director's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements and the content of the chairman's report relating to these financial statements are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law nor of the memorandum of articles of association of the Bank have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking license.

Ernst + Young

3rd February 2010

Manama, Kingdom of Bahrain

FINANCIAL STATEMENTS 2009

STATEMENT OF INCOME Year ended 31 December 2009

	Note	2009 BD'000	2008 BD'000
Interest and similar income	5	26,567	32,169
Interest expense and similar charges	6	13,395	18,448
Net interest income		13,172	13,721
Net fees and commissions income	7	907	765
Net losses from foreign currencies		(55)	(94)
(Loss) profit on disposal of equipment		(11)	2
Other operating income		127	111
		968	784
OPERATING INCOME		14,140	14,505
Provision for loan losses - net	10	2,410	455
NET OPERATING INCOME		11,730	14,050
Staff expenses		2,068	1,996
Depreciation		260	188
Other operating expenses		1,179	1,148
OPERATING EXPENSES		3,507	3,332
PROFIT FOR THE YEAR		8,223	10,718

The attached notes 1 to 31 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION At 31 December 2009

	Note	2009 BD'000	2008 BD'000
ASSETS			
Cash and balances with central banks	8	45,356	34,194
Due from banks	9	358,947	380,963
Loans and advances to customers	10	118,413	113,127
Non-trading investments	11	12,420	8,779
Other assets	12	5,414	4,116
Property and equipment	13	3,024	2,343
Goodwill	14	3,942	3,942
TOTAL ASSETS		547,516	547,464
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		312,820	350,502
Customers' deposits	15	108,726	95,856
Medium term loans	16	48,764	31,856
Other liabilities	17	3,458	5,987
Total liabilities		473,768	484,201
EQUITY			
Share capital	18	56,550	45,240
Statutory reserve	19	4,095	3,273
Retained earnings		13,103	14,750
Total equity		73,748	63,263
TOTAL LIABILITIES AND EQUITY		547,516	547,464

(Chairman)

(CEO & Managing Director)

The attached notes 1 to 31 form part of these financial statements.

FINANCIAL STATEMENTS cont...

STATEMENT OF CASH FLOWS Year ended 31 December 2009

	Note	2009 BD'000	2008 BD'000
OPERATING ACTIVITIES			
Profit for the year		8,223	10,718
Adjustments for:			
Depreciation		260	188
Provision for loan losses - net	10	2,410	455
Loss (profit) on disposal of property and equipment		11	(2)
Operating profit before changes in operating assets and liabilities		10,904	11,359
Changes in operating assets and liabilities:			
Mandatory reserve deposit with Central Bank of Bahrain		392	(222)
Due from banks		(3,310)	16,354
Loans and advances to customers		(7,696)	(30,255)
Other assets		(1,298)	1,780
Due to banks		(37,682)	748
Customers' deposits		12,870	28,205
Other liabilities		(2,529)	148
Net cash (used in) from operating activities		(28,349)	28,117
INVESTING ACTIVITIES			
Purchase of non-trading investments		(8,814)	(10,614)
Net proceeds from maturity of non-trading investments		5,173	12,008
Purchase of property and equipment		(952)	(545)
Proceeds from disposal of equipment		1	1
Net cash (used in) from investing activities		(4,592)	850
FINANCING ACTIVITIES			
Proceeds from rights issue		11,310	-
Medium term loan raised		16,908	15,224
Dividend paid		(9,048)	(5,655)
Net cash from financing activities		19,170	9,569
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(13,771)	38,536
Cash and cash equivalents at the beginning of the year		304,344	265,808
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	290,573	304,344

The attached notes 1 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2009

	Share capital BD'000	Statutory reserve BD'000	Retained earnings BD'000	Total BD'000
Balance at 1 January 2008	45,240	2,201	10,759	58,200
Dividend paid during the year (note 20)	-	-	(5,655)	(5,655)
Net profit for the year - 2008	-	-	10,718	10,718
Transfer to statutory reserve (note 19)	-	1,072	(1,072)	-
Balance at 31 December 2008	45,240	3,273	14,750	63,263
Issue of share capital (note 18)	11,310	-	-	11,310
Dividend paid during the year (note 20)	-	-	(9,048)	(9,048)
Net profit for the year - 2009	-	-	8,223	8,223
Transfer to statutory reserve (note 19)	-	822	(822)	-
Balance at 31 December 2009	56,550	4,095	13,103	73,748

The attached notes 1 to 31 form part of these financial statements.

FINANCIAL STATEMENTS cont...

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

1 ACTIVITIES

Futurebank B.S.C. (c) ("the Bank") is a closed Bahrain Joint Stock Company incorporated on 1 July 2004 when the Bank acquired the Bahrain commercial branches of Bank Melli Iran (BMI) and Bank Saderat Iran (BSI) and the offshore banking unit of BSI. The Bank operates in the Kingdom of Bahrain under a retail banking license issued by the Central Bank of Bahrain and is engaged in commercial banking activities through its three branches in the Kingdom of Bahrain. The address of the Bank's registered office is PO Box 785, Manama, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 3rd February 2010.

2 BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

Accounting convention

The financial statements are prepared under the historical cost convention. The financial statements have been presented in Bahraini Dinars (BD) being the functional currency of the Bank and all values are rounded to the nearest thousand BD (BD '000) except when otherwise indicated.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Bank's management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the Bank's management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in possible future changes to such allowance.

Collective impairment provisions on loans and advances

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Impairment of goodwill

The annual impairment testing of goodwill involves significant judgements and assumptions relating to the Bank's future operations and the economic environment in which it operates.

4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statement are set out below. These policies have been consistently applied unless otherwise indicated.

The Bank has applied the following standards and amendments which became effective in 2009:

IAS 1 'Presentation of financial statements' (revised)

The revised standard requires changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented in the statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in a performance statement (consolidated statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

The Bank has adopted the revised standard. However, the statement of comprehensive income has not been presented as there are no non-owner changes in equity during the year ended 31 December 2009.

Amendments to IFRS 7 Financial instruments: Disclosures about financial instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

The Bank has adopted the amended IFRS 7, however there is no significant impact as it does not hold any financial instruments carried at fair value.

Standards issued but not adopted

The Bank has not early adopted IFRS 9 Financial Instruments which was issued in November 2009 as first part of a three part project to replace IAS 39: Financial instruments recognition and measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

The effective date for mandatory adoption of IFRS 9 is 1 January 2013 with early adoption permitted for 2009 year-end financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income .

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially measured at their fair value plus, any directly attributable incremental costs of acquisition or issue.

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on trade date, i.e. the date that the Bank commits to purchase or sell the asset.

(ii) Initial recognition and subsequent measurement

a) Available-for-sale investments

Available-for-sale investments are financial assets that are held for an indefinite period of time, but may be sold in response to need for liquidity or that are not classified as loans and receivables, held to maturity or at fair value through statement of income.

Available-for-sale investments are initially recognised at fair value including any transaction cost and subsequently measured at fair value. All gains and losses are taken to the statement of comprehensive income and foreign exchange gains and losses are recognised in the statement of income under “Net gains/(losses) from foreign currencies”.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and which the Bank has the intention and ability to hold to maturity. Held-to-maturity financial investments are initially recorded at fair value including transaction cost and are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in ‘Interest and similar income’ in the statement of income. The losses arising from impairment of such investments are recognised in the statement of income.

c) Due from banks and loans and advances to customers

Due from banks and loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the statement of financial position captions ’Due from banks’ and ’Loans and advances to customers’. These are initially measured at fair value which is the cash consideration to originate the loan. After initial measurement, these are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in ‘Interest and similar income’ in the statement of income. The losses arising from impairment of such loans and advances are recognised in the income statement in ‘Provision for loan losses - net’.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Derivatives

Derivatives represent forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negatives. Changes in fair value of derivatives held for trading are included in the statement of income.

e) Medium term loans

Medium term loans are stated at amortised cost using the effective interest rate method.

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Fair value

For investments quoted in an active market, fair value is calculated by reference to quoted bid prices. The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financia asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss, is recognised in the statement of income.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account and the corresponding amount recognised in the statement of income. If a future write-off is later recovered, the recovery is credited to the 'Provision for loan losses - net'.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate;

(b) for assets carried at fair value, impairment is the difference between cost and fair value; and

(c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income

For all financial instruments measured at amortised cost, interest-income or expense is recorded at the effective interest rate.

(ii) Fees and commissions income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commission income are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of equipment to their residual values over their estimated useful life of 5 years. Land is not depreciated.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

Goodwill

Goodwill arising on acquisition is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised in the statement of income.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Bank makes contributions to the Social Insurance Organisation scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with central banks (excluding mandatory reserve deposits), deposits with banks with original maturities of less than ninety days.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'provision for loan losses-net'. The premium received is recognised in the statement of income in 'Net fees and commissions income' on a straight line basis over the life of the guarantee.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of the new loan conditions. Once the term have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

5 INTEREST AND SIMILAR INCOME

	2009 BD'000	2008 BD'000
Loans and advances	21,448	18,320
Due from banks	3,583	11,659
Non-trading investments	1,536	2,190
	26,567	32,169

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2009 BD'000	2008 BD'000
Due to banks	10,350	14,023
Customers' deposits	2,409	3,446
Medium term loans	636	979
	13,395	18,448

7 NET FEES AND COMMISSIONS INCOME

	2009 BD'000	2008 BD'000
Fees and commissions income	958	783
Fees and commissions expense	(51)	(18)
	907	765

8 CASH AND BALANCES WITH CENTRAL BANKS

	2009 BD'000	2008 BD'000
Cash	831	373
Balances with the Central Bank of Bahrain:		
Current account	776	580
Mandatory reserve deposit	2,905	3,297
Time deposit	32,700	29,900
Current account with the Central Bank of Iran	8,144	44
	45,356	34,194

Mandatory reserve deposit is not available for use in the day-to-day operations of the Bank.

9 DUE FROM BANKS

	2009 BD'000	2008 BD'000
Placements	191,716	256,074
Bills discounted	167,231	124,889
	358,947	380,963

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

10 LOANS AND ADVANCES TO CUSTOMERS

	2009 BD'000	2008 BD'000
Retail	11,500	7,315
Corporate	113,680	109,990
	125,180	117,305
Less: Provision for loan losses	(5,010)	(2,657)
Suspended interest	(1,757)	(1,521)
	118,413	113,127

The movements in provision for credit losses were as follows:

	2009			2008		
	Retail BD'000	Corporate BD'000	Total BD'000	Retail BD'000	Corporate BD'000	Total BD'000
At 1 January	362	2,295	2,657	484	1,811	2,295
Charge for the year	346	2,566	2,912	48	484	532
Recoveries	(76)	(426)	(502)	(77)	-	(77)
Net provision	270	2,140	2,410	(29)	484	455
Amounts written off	(36)	(21)	(57)	(93)	-	(93)
At 31 December	596	4,414	5,010	362	2,295	2,657
Specific provision	596	1,558	2,154	362	1,028	1,390
Collective provision	-	2,856	2,856	-	1,267	1,267
Total provision	596	4,414	5,010	362	2,295	2,657
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,346	9,812	12,158	3,058	3,102	6,160

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to BD 24.7 million (31 December 2008: BD 14.0 million). The collateral consists of cash, securities, properties and letters of guarantee from banks and corporates.

11 NON-TRADING INVESTMENTS

	2009			2008		
	Available for sale	Held to maturity	Total	Available for sale	Held to maturity	Total
Unquoted	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Iranian Government bonds	10,033	2,377	12,410	6,358	2,411	8,769
Equity	10	-	10	10	-	10
	10,043	2,377	12,420	6,368	2,411	8,779

The Iranian Government bonds are denominated in Iranian Rials. These are stated at cost as on maturity the bonds are redeemable at their face value.

12 OTHER ASSETS

	2009	2008
	BD'000	BD'000
Interest receivable	5,007	3,823
Sundry debtors and prepayments	382	291
Other	25	2
	5,414	4,116

13 PROPERTY AND EQUIPMENT

Property and equipment include a freehold land in Seef District in the Kingdom of Bahrain of BD 1.3 million (31 December 2008: BD 1.3 million) for construction of the Bank's new head office premises. No commitments in connection with the new premises had been entered into at the year end. The Bank's management performed an impairment review of the land by seeking an independent professional valuation as of 31 December 2009. Based on such review no indication of impairment was observed.

14 GOODWILL

The Goodwill has arisen from the Bank's acquisition of the offshore banking unit of BSI in Bahrain in 2004 (refer note 1). The Bank's management has allocated the goodwill entirely to a single cash generating unit (CGU) - International Trade Finance and Treasury Unit.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Bank's senior management covering a five year period. The key assumptions used in the value in use calculation included a perpetuity growth rate of 1% and discount factor of 25.26%.

As the recoverable amount of the CGU was in excess of its net book value, the management concluded that the goodwill is not impaired.

The calculation of value in use for the CGU is sensitive to certain key assumptions such as growth rate, risk free rate, market risk premium and country risk premium.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

15 CUSTOMERS' DEPOSITS

	2009 BD'000	2008 BD'000
Current and call accounts	12,170	8,999
Savings accounts	5,470	4,782
Term deposit accounts	91,086	82,075
	108,726	95,856

16 MEDIUM TERM LOANS

	2009		2008	
	Interest rate	BD'000	Interest rate	BD'000
Bank Saderat Iran (repayable in bullet in December 2012)	Libor + 25 basis points	16,255	Libor + 25 basis points	15,928
Bank Melli Iran (repayable in bullet in November 2012)	Libor + 25 basis points	16,255	Libor + 25 basis points	15,928
Bank Tejarat Iran (repayable in bullet in November 2012)	Libor +1.25 basis points	16,254	-	-
		48,764		31,856

17 OTHER LIABILITIES

	2009 BD'000	2008 BD'000
Interest payable	1,665	4,189
Staff related accruals	678	610
Accounts payable	670	809
Other	445	379
	3,458	5,987

18 SHARE CAPITAL

	2009 BD'000	2008 BD'000
Authorised:		
75.4 million (31 December 2008: 75.4 million) ordinary shares of BD 1 each	75,400	75,400
Issued and fully paid:		
56.5 million (31 December 2008: 45.2 million) ordinary shares of BD 1 each	56,550	45,240

At the Bank's Annual General meeting held on 25 February 2009, the Bank's shareholders resolved to increase the Bank's paid up share capital from BD 45.2 million to BD 56.5 million through a rights issue of 11.3 million shares of BD 1 each.

19 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equates to 50% of the paid up share capital. This reserve is non distributable, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

20 DIVIDEND PROPOSED AND PAID

	2009 BD'000	2008 BD'000
Dividend paid during the year:		
Final dividend for 2008 - Bahraini Fils: 200 per share (for 2007 - Bahraini Fils: 125 per share)	9,048	5,655

The proposed appropriations for the year 2008 was approved by the Bank's shareholders at the Annual General Meeting on 25 February 2009.

	2009 BD'000	2008 BD'000
Proposed dividends:		
Proposed cash dividend for 2009 - Bahraini Fils: 232 per share (for 2008 - Bahraini Fils: 200 per share)	13,101	9,048

The above proposed appropriation will be submitted for formal approval at the Annual General meeting subject to necessary regulatory approval.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

21 CASH AND CASH EQUIVALENTS

	2009 BD'000	2008 BD'000
Cash and balances with Central banks excluding mandatory reserve deposit	42,451	30,897
Due from banks with an original maturity of less than ninety days	248,122	273,447
	290,573	304,344

22 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

Details of balances and transactions with related parties are as follows:

	2009 BD'000	2008 BD'000
Statement of financial position		
Shareholders and related parties		
Placements (included in due from banks) *	135,702	188,738
Loans and advances to shareholders (included in due from banks) *	97,704	71,907
Loans and advances to other related parties (included in loans and advances) **	9,124	12,781
Deposits from shareholders (included in due to banks) *	22,573	1,453
Medium term borrowings *	32,510	31,856
Directors and key management personnel		
Loans and advances	42	37
Deposits	109	73

	2009 BD'000	2008 BD'000
Income statement		
Shareholders and related parties		
Interest income from shareholders*	9,455	14,115
Interest income from other related parties**	683	1,322
Fees and commissions income from shareholders*	396	188
Fees and commissions income from other related parties **	48	31
Interest expense *	760	898

* These relate to two of the Bank's shareholders.

** These relate to two affiliates of the Bank's shareholders.

22 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

Compensation for key management, including executive directors, comprises the following:

	2009 BD'000	2008 BD'000
Salaries and other short term benefits	689	608
End of service benefits	25	19

In 2009 Directors' sitting fees amounted to BD 39 thousand (2008: BD 27 thousand).

23 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers.

The Bank has the following credit related commitments:

	2009 BD'000	2008 BD'000
Commitments on behalf of customers:		
Acceptances	799	3,773
Letters of credit	3,769	256
Guarantees	3,569	13,736
	8,137	17,765

Other Commitments:

The Bank's commitments in respect of operating leases were as follows:

	2009 BD'000	2008 BD'000
Within one year	135	92
Within one to five years	82	100
	217	192

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

24 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Bank is as follows:

	2009 BD'000	2008 BD'000
Capital base:		
Tier 1 capital	65,525	52,545
Tier 2 capital	8,223	10,718
Goodwill	(3,942)	(3,942)
Total capital base (a)	69,806	59,321
Risk weighted assets (b)	332,254	390,962
Capital adequacy (a/b * 100)	21.0%	15.2%
Minimum requirement	12.0%	12.0%

Since 2008 the Bank has adopted the Basle II guidelines for calculation of the capital adequacy ratio.

25 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operational risk.

Risk management framework

The risk management framework is summarised through the risk charter of the Bank which was approved by the board of directors in December 2007 and last reviewed in July 2009. The objective of risk charter is to define the board framework consisting of policies and procedures for management of credit, operational, market and liquidity risk. It also defines the roles and responsibilities of various committees, such as board, executive committee, management committee, risk committee, and the risk management department. The board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent committees responsible for managing and monitoring risks. The overall control for Risks lies with the Risk Committee.

Board of directors

The board of directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

25 RISK MANAGEMENT (continued)

Executive committee

The executive committee is responsible for evaluating and approving business and risk strategies, plans and policies of the Bank and reports to the Board.

Audit committee

The audit committee is responsible for ensuring the Bank's internal controls and systems are properly tested. The audit committee is also responsible for ensuring that Bank meets various regulatory guidelines and undertakes continuous disclosure in line with the accounting and regulatory standards.

Risk management committee

The risk management committee has overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions. There are two sub-committees namely operational risk sub-committee and credit monitoring and special asset management (SAM) committee which monitor operational risk and credit risk respectively and report to the risk management committee.

Risk management department

The risk management department is responsible for implementing and maintaining risk related procedures to ensure that independent reporting and control processes exist.

Asset liability management committee

The asset liability management committee (ALCO) is the management's governing committee mainly responsible for market and liquidity risks pertaining to on statement of financial position and off statement of financial position items by optimising liquidity constraints, profitability expectations, foreign exchange exposures, income and asset volatility and capital adequacy requirements.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the board of directors, the risk committee, and the head of each business division. The report includes aggregate credit exposure, analysis of lending portfolio by sectors, ratings and security as well as country exposure. The liquidity and interest rate risk related ratios are reported and discussed in the monthly ALCO meetings. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive overview through a report from head of risk and other reports produced by Risk Management Department (RMD) such as ten largest watch listed borrower accounts ten largest non-performing borrower accounts and computation of capital adequacy ratio for the quarters.

25 RISK MANAGEMENT (continued)

Risk mitigation

Significant risk mitigation techniques are applied in the area of credit and Operational Risk. The Bank actively uses collateral to reduce its credit risks.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

– For commercial lending in Bahrain, charges over real estate properties; and

– For lending outside Bahrain (mainly Iran) collateral of shares listed on the Tehran stock exchange.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Operational Risk is mitigated through a set of internal controls which are part of the Bank's Standard Operating Procedures (SOPs). The Bank has implemented a dedicated software to monitor key risk indicators (KRI) and loss events. The data is gathered by business coordinators and validated by respective supervisors before it is loaded into the software. The threshold breaches if any, are reported to the operational risk sub-committee for suitable action. The entire operational risk management process was recently reviewed by the Bank's internal audit function.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. These are also reported to the Board.

26 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, (refer note 10) and collateral arrangements with counterparties, and limits the duration of exposures.

(a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral but after impairment allowance, if any.

26 CREDIT RISK (continued)

	Gross maximum exposure 2009 BD'000	Gross maximum exposure 2008 BD'000
Balances with central banks	44,525	33,821
Due from banks	358,947	380,963
Loans and advances to customers	118,413	113,127
Non-trading investments	12,410	8,769
Other assets	5,313	4,062
Total on statement of financial position exposures	539,608	540,742
Contingent liabilities and commitments	8,137	17,765
Total credit risk exposure	547,745	558,507

(b) Risk concentrations of the maximum exposure to credit risk

The distribution of assets (excluding goodwill), liabilities (excluding equity), and off-balance items by geographic region and industry sector was as follows:

	2009			2008		
	Assets BD'000	Liabilities BD'000	Credit related commitments BD'000	Assets BD'000	Liabilities BD'000	Credit related commitments BD'000
Geographic region:						
Domestic (Bahrain)	114,677	65,253	3,657	109,159	101,188	13,880
Iran and Middle East countries*	356,279	403,366	4,480	373,164	382,569	3,885
Europe	72,618	5,149	-	61,199	108	-
Asia, North America and Rest of the World	-	-	-	-	336	-
	543,574	473,768	8,137	543,522	484,201	17,765
Industry sector:						
Trading and manufacturing	24,093	727	4,825	25,708	925	4,075
Banks and financial institutions	444,415	365,491	-	445,088	382,772	-
Construction and real estate	54,983	73	2,533	36,471	756	130
Other	20,083	107,477	779	36,255	99,748	13,560
	543,574	473,768	8,137	543,522	484,201	17,765

* A Substantial part of these exposures relate to Iran.

As of 31 December 2009, five largest customers accounted for 23% (31 December 2008: 32%) of the net loans and advances to customers.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

26 CREDIT RISK (continued)

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets, based on the Bank's credit rating system.

	31 December 2009				
	Neither past due nor impaired				
	High grade BD'000	Standard grade BD'000	Past due but not impaired BD'000	Individually impaired BD'000	Total BD'000
Balances with central banks	44,525	-	-	-	44,525
Due from banks					
Placements	-	191,716	-	-	191,716
Loans and advances	-	167,231	-	-	167,231
Loans and advances to customers					
Retail	2,942	5,251	961	2,346	11,500
Corporate	17,192	51,996	34,680	9,812	113,680
Non-trading investments	12,410	-	-	-	12,410
	77,069	416,194	35,641	12,158	541,062

	31 December 2008				
	Neither past due nor impaired				
	High grade BD'000	Standard grade BD'000	Past due but not impaired BD'000	Individually impaired BD'000	Total BD'000
Balances with central banks	33,821	-	-	-	33,821
Due from banks					
Placements	-	256,074	-	-	256,074
Loans and advances	-	124,889	-	-	124,889
Loans and advances to customers					
Retail	507	3,564	186	3,058	7,315
Corporate	33,913	50,811	22,164	3,102	109,990
Non-trading investments	8,769	-	-	-	8,769
	77,010	435,338	22,350	6,160	540,858

26 CREDIT RISK (continued)

(d) Aging analysis of past due but not impaired loans per class of financial assets

31 December 2009

	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Loans and advances to customers				
Retail	12	488	461	961
Corporate*	9,009	11,831	13,840	34,680
	9,021	12,319	14,301	35,641

* Subsequent to the year end, BD 11.9 million (2008: BD 12.7 million) of the corporate loans and advances portfolio have been transferred from the past due but not impaired loans category to high or standard grades upon collection of the related over dues.

31 December 2008

	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Loans and advances to customers				
Retail	134	31	21	186
Corporate*	4,982	16,107	1,075	22,164
	5,116	16,138	1,096	22,350

The above past due loans and advances include those that are only past due by a few days.

(e) Carrying amount per class of financial assets whose terms have been renegotiated

	2009 BD'000	2008 BD'000
Loans and advances to customers		
Retail	351	290
Corporate	7,877	743
Total renegotiated loans	8,228	1,033

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

27 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

27.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank's management believe that the Bank is not exposed to material interest rate risk as a result of mismatches of interest rate reprising of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates by major currencies, with all other variables held constant, of the Bank's statement of income. The Bank's equity is not sensitive to changes in interest rates as at 31 December 2009 and 2008.

	31 December 2009		31 December 2008	
	Increase in basis points	Impact on net interest income BD'000	Increase in basis points	Impact on net interestincome BD'000
US Dollars	100	99	100	(224)
Bahraini Dinar	100	323	100	181
Euro	100	(114)	100	(26)
Iranian Rials	100	124	100	87

The impact of a similar decrease in basis points will be approximately opposite to the impact disclosed above.

27.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 and 2008. The analysis calculates the effect of a reasonably possible movement of the currency exchange rate against the BD with all other variables held constant on the statement of income. A negative amount in the table reflects a potential net reduction in statement of income, while a positive amount reflects a net potential increase.

	31 December 2009		31 December 2008	
Currency	Change in currency rate in %	Effect on profit 2009 BD'000	Change in currency rate in %	Effect on profit 2008 BD'000
Euro	10	(358)	10	(223)
Swiss Francs	10	(1)	10	(221)
Iranian Rials	8	1,027	8	716

28 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Bank has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahraini Dinars. The Bank also maintains limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Bank's deposit retention history.

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2009 was as follows:

	Up to 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets								
Cash and balances with central banks	42,451	-	-	-	-	-	2,905	45,356
Due from banks	177,947	70,541	55,005	55,454	-	-	-	358,947
Loans and advances to customers	10,731	15,283	5,773	36,253	24,504	25,869	-	118,413
Non-trading investments	10,033	-	-	2,377	-	-	10	12,420
Other assets	2,588	856	606	915	208	241	-	5,414
Property and equipment	-	-	-	-	-	-	3,024	3,024
Goodwill	-	-	-	-	-	-	3,942	3,942
Total assets	243,750	86,680	61,384	94,999	24,712	26,110	9,881	547,516
Liabilities								
Due to banks	122,989	90,054	48,449	51,328	-	-	-	312,820
Customers' deposits	8,322	8,048	-	-	92,356	-	-	108,726
Medium term loans	-	-	-	-	48,764	-	-	48,764
Other liabilities	2,131	555	216	232	324	-	-	3,458
Total liabilities	133,442	98,657	48,665	51,560	141,444	-	-	473,768
Net liquidity gap	110,308	(11,977)	12,719	43,439	(116,732)	26,110	9,881	
Cumulative liquidity gap	110,308	98,331	111,050	154,489	37,757	63,867	73,748	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2009

28 LIQUIDITY RISK (continued)

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2008 was as follows:

	Up to 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets								
Cash and balances with central Banks	30,897	-	-	-	-	-	3,297	34,194
Due from banks	176,688	96,761	15,105	92,409	-	-	-	380,963
Loans and advances to customers	4,843	10,315	3,948	33,329	29,747	30,945	-	113,127
Non-trading investments	6,358	-	-	-	2,411	-	10	8,779
Other assets	1,782	805	143	945	213	228	-	4,116
Property and equipment	-	-	-	-	-	-	2,343	2,343
Goodwill	-	-	-	-	-	-	3,942	3,942
Total assets	220,568	107,881	19,196	126,683	32,371	31,173	9,592	547,464
Liabilities								
Due to banks	83,423	25,799	6,261	235,019	-	-	-	350,502
Customers' deposits	7,295	7,055	-	-	81,506	-	-	95,856
Medium term loans	-	-	-	-	31,856	-	-	31,856
Other liabilities	3,313	886	179	1,178	431	-	-	5,987
Total liabilities	94,031	33,740	6,440	236,197	113,793	-	-	484,201
Net liquidity gap	126,537	74,141	12,756	(109,514)	(81,422)	31,173	9,592	
Cumulative liquidity gap	126,537	200,678	213,434	103,920	22,498	53,671	63,263	

28 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately.

	On demand BD'000	less than 3 months BD'000	3 to 6 months BD'000	6 to 12 months BD'000	1 to 3 years BD'000	Total BD'000
Financial liabilities						
As at 31 December 2009						
Due to banks	123,435	91,104	49,001	51,756	-	315,296
Customers' deposits	21,780	69,067	8,715	10,064	80	109,706
Medium term loans	-	613	613	1,226	53,877	56,329
	145,215	160,784	58,329	63,046	53,957	481,331
Contingencies and commitments	1,417	3,016	2,632	100	972	8,137
Total undiscounted financial liabilities	146,632	163,800	60,961	63,146	54,929	489,468
As at 31 December 2008						
Due to banks	168,342	54,164	13,985	121,879	-	358,370
Customers' deposits	16,191	63,896	7,375	9,935	26	97,423
Medium term loans	-	401	401	801	35,387	36,990
	184,533	118,461	21,761	132,615	35,413	492,783
Contingencies and commitments	716	14,447	347	1,263	992	17,765
Total undiscounted financial liabilities	185,249	132,908	22,108	133,878	36,405	510,548

29 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Bank. The Bank has developed controls and procedures to identify legal risks and believes that losses will be avoided.

30 OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and saving accounts without specific maturity and variable rate financial instruments.

The estimated fair values of other financial assets and financial liabilities are not materially different from their carrying values as stated in the statement of financial position.

DISCLOSURES

Pillar III Qualitative Disclosures - Basel II 31 December 2009

RISK MANAGEMENT

Management of risk involves the identification, measurement, ongoing monitoring and control of all financial and non financial risks to which the Bank is potentially exposed. It is understood that risks cannot be eliminated but can be effectively controlled and mitigated. This involves continuous monitoring of the political, economic and market conditions as also the creditworthiness of the Banks' counterparts. To achieve this objective the Bank has decided to use the best management practices supported by skilled and experienced people and appropriate technology.

The Board of Directors of the Bank assumes ultimate responsibility for the risk management function through a comprehensive set of policies and strategies which are subject to periodic review. The Board defines the risk appetite of the Bank through such policies and strategies which ultimately provide necessary direction and framework for all activities undertaken by the Bank. The Senior Management, under the direct supervision of the Board is responsible for establishing procedures for implementation of these policies and strategies.

The Risk function at Futurebank was formally set up in September 2005. Within a short span of a little more than four years the Bank has managed to go into various areas of risk management. The overall risk management activity is enunciated through a Risk Charter which lays down the overall framework of strategies, infrastructure, policies and procedures. It also summarizes the committee structure adopted by the Bank for management of risk. The Risk Management Committee (RMC) set up with the representation of Senior Management, reports to Board of Directors. The RMC is chaired by the CEO and is responsible for implementation, interpretation and follow up of the risk policies. The terms of reference of the RMC broadly include the implementation of all policies relating to management of Credit, Market and Operational risks on an ongoing basis. There are two sub committees to specifically monitor Operational Risk and Credit Risk respectively. Both sub committees report to the RMC.

During 2009 additional staff was recruited in order to improve overall efficiency of the Risk Management Department (RMD). In addition certain activities such as Credit Administration and Special Asset Management (SAM) were segregated from the RMD. The Head of Risk reports to the CEO with a dotted line to the Board. During 2009, based on Central Bank of Bahrain's (CBB) guidelines, a risk profiling audit of the Bank was conducted by an independent external auditor and the report was sent to the CBB. Based on the gaps identified in the report, the Bank submitted a time bound action plan to the CBB. The RMD follows up on this action plan and backlog, if any, is reported to the Board.

The RMD is responsible for the day-to-day management of risk which includes maintenance of various limits, monitoring of these limits, reporting all excesses and anomalies to RMC and follow up with respective front office representatives for regularization.

Internal audit assesses whether the policies and procedures are complied with and if necessary, suggest ways of improving internal controls. A separate internal control function was set up under the Finance Department and looks after various internal control issues.

The risks associated with the Banks' business are broadly categorized into credit, market, liquidity and operational risks. These are discussed in following sections.

CREDIT RISK

Credit risk is the potential financial loss arising due to counterpart default or counterpart failure to perform as per agreed terms. The objective of credit risk management is to ensure that all credit exposures are undertaken and managed within the parameters defined in the credit risk policy and the risk reward relationship is maintained. In December 2007, the Bank adopted a comprehensive credit risk policy which was further augmented in December 2008. All credit activities of the Bank are guided by a set of principles and procedures as described in this policy document.

The credit approval process follows the well accepted principle of joint signatories under which the credit application is generated by the front office and is independently commented by a representative of the RMD before being placed at the Credit Committees. The approval levels are well defined with clear delegations in terms of amount and tenor. In case of relatively risk free exposures such as cash collateralized loans, sub delegations are permitted under the policy.

The Bank has adopted an elaborate rating system separately for retail, corporate and bank customers with appropriate weight age to quantitative and qualitative factors. Rating is mandatory for all credit decisions. The entire portfolio of the Bank has been segregated into three broad categories namely; the investment grade assets (Ratings A to D minus); the judgmental grade (Weak list E + and Watch list E); and the classification grade assets (Ratings X, Y and Z) which are the Non Performing Assets (NPA). For external classifications, where available the Bank relies on FITCH ratings for counterparties and country risk.

Limits are also in place to monitor various credit concentrations by counterpart / group, country, sector, ratings etc. The day-to-day monitoring of individual borrowers or counterparty exposures is the responsibility of the respective business units. The Credit Administration unit ensures that credit facilities are released after proper approval and against proper documentation. The Credit Risk Monitoring and Control unit under RMD ensures that limits and other parameters such as ratings, sector codes etc. are properly maintained in the system. It also monitors past dues, expired credits and any other exceptions and ensures proper classification of assets. Bank's credit risk policy incorporates detailed guidelines on acceptability of various types of collaterals, haircuts, frequency of valuation and guidelines on selection of external valuers. Collaterals are valued with a minimum frequency of one year or more depending upon the volatility of the markets. The main types of guarantors currently accepted by the Bank are corporate and quasi-government entities. The creditworthiness of these guarantors is assessed by the Bank through the same credit rating model as used for borrowers.

A remedial unit is in place to manage the NPA accounts and follow up of loans on which legal action has been taken. The Bank follows the Basel II norm of 90 days default for classifying a loan as non performing / impaired category. Interest / other income is immediately suspended upon classification of an asset as NPA. The Bank follows IAS – 39 guidelines for making specific provisions in respect of its impaired assets. A collective impairment provision is held in addition to specific provision which is based on the probability of default (PD) of external rating agencies which are mapped to the Banks internal rating categories on a best effort basis. All provisions are recommended by the Risk Department and approved by the Risk Committee.

The Bank has adopted standardized approach for capital computation under credit risk.

LIQUIDITY, INTEREST & CURRENCY RISK (BANKING BOOK)

Liquidity risk is the risk of the Bank failing to meet its commitments unless it raises funds at unreasonable prices or is forced to sell its assets at whatever price. It arises out of funding mismatch.

At Futurebank the liquidity and interest risks are managed through the mechanism of Assets Liability Management Committee (ALCO). The Bank uses the maturity ladder (time buckets) approach for managing its liquidity. For interest rate risks the Bank considers the interest reset dates. The limits for each time bucket of the maturity ladder, the cumulative outflow of cash for each time bucket and limits on each gap as approved by the Board are reviewed and monitored by ALCO. It is the Bank's policy to keep its assets in high quality liquid assets such as inter-bank placements to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals. A substantial portion of Bank's deposits is made up of retail, current and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of stable funds.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimized. The Board has approved limits for open positions which are monitored by the RMD on daily basis.

The Bank does not have trading portfolios and therefore not exposed to interest and / or currency risk on that count. The Treasurer is responsible for day-to-day management of liquidity, inertest and FX risk arising in the banking book with direct reporting to Senior Management and ALCO.

MARKET RISK

Market Risk is defined as the risk of potential losses in the on and off balance sheet positions, arising out of adverse movements in interest rates, equity prices, exchange rates, commodity prices and derivatives. This risk arises from the asset–liability mismatch, changes in yield curve, and changes in the volatilities in the market value of derivatives.

The magnitude of market risk carried on the balance sheet is minimal. At present the Bank does not trade in foreign exchange for its own

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account nor does it carry open positions except for its nostros. The Bank is also not trading in commodities.

The Bank currently holds no trading portfolio and therefore application of Value at Risk (VaR) techniques is not relevant for the time being. The Bank has invested certain amounts in Iranian government bonds and has adopted a cut loss policy to prevent loss arising in case of possible depreciation of Iranian Rial. In addition, the Bank is also indirectly exposed to loss on account of depreciation of Iranian Rial as it has granted loans designated in BD in Bahrain against Iranian Rial deposits issued in Iran. The exchange risk is being monitored on a regular basis. In Bahrain, the Bank is indirectly exposed to the Real Estate sector as major portion of its lending portfolio in Bahrain is secured by real estate mortgage.

Bank is indirectly exposed to market risk on Iranian equities as major portion of its offshore credit portfolio is secured by listed Iranian stocks. A policy is in place to diversify this risk into various stocks to avoid concentrations, to obtain adequate cushion to protect against possible fall in prices, regular monitoring, with top up and sell down thresholds.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from failed processes, technology, people or external events. It includes reputation risk. The Bank has put in place standard operating procedures which comply with the high standards of internal control. In the process, the activities have been segregated into back office and front office in accordance with international best practices.

The IT security processes were re-engineered and streamlined through an ISO audit. The management information system (MIS) is being strengthened with particular focus on exception management. The Internal Audit Department is considered as the final layer of internal control and reports directly to the Board of Directors.

A Business Continuity plan is in place to ensure continuity of essential services to customers in case of occurrence of any calamity resulting in dirsruption of normal business activity. Similarly, a disaster recovery plan is also in place. The Bank has set up disaster recovery site at one of its branches as a back up site in case of any disaster.

An operational risk management policy and procedure framework has been adopted which defines key operational risk areas, key control standards and key risk indicators in line with the Basel II recommendations. The Bank currently follows the basic indicator approach for operational risk. The operational risk sub committee is in charge of implementation of the operational risk policy and reports to the RMC. The RMD implements operational risk procedures. A dedicated software is in place to monitor operational risk.

CAPITAL ADEQUACY ASSESSMENT PROCESS AND PILLAR II RISKS (ICAAP)

The Bank follows standardized approach for credit and market risks and the basic indicator approach for operational risk. A capital management policy has been approved by the Board under which the Bank has defined threshold limits for capital adequacy ratio with a minimum capital requirement ratio of 12% (same as required by the CBB) and a maximum threshold level. Within this range, 3 trigger ratios are defined i.e. internal target ratio, lower trigger ratio, and ICAAP capital adequacy ratio to enable the Bank to assess the adequacy of the capital to support current and future activities. Action points are triggered in case of breach of any of the lower trigger ratios. The ICAAP capital adequacy ratio represents the capital position which the Bank will maintain the additional buffer over 12% to accommodate any capital requirements under Pillar II and effects of stress test on the level of capital required. In order to manage the Pillar II risks the Bank has adopted risk diversification policies by geographic, sector, rating classifications. Stress tests are performed at quarterly intervals and reported to the Board.

For example the geographic areas are broken into six categories under the country risk management policy based on country ratings. Exposure limits have been set up on each category. Similarly sector limits and rating wise limits have been defined under the credit risk policy to avoid concentration risk. Currently the geographic risk is concentrated to one country i.e. Iran apart from Bahrain.

The Bank follows the CBBs definition of large exposure limits and all credit approvals are based on adherence to the maximum limit of 15% of capital base except those specifically approved by the CBB. All large exposures are monitored by the RMD on a daily basis and a report is presented to the Risk Committee on a monthly basis. Certain sensitive exposures such as connected party exposure and Iran exposure are monitored on a daily basis.

Pillar III Qualitative Disclosures - Basel II 31 December 2009

Any credit obligation which remains unpaid on the due date is considered as past due on the next succeeding day. All past dues are closely monitored through daily and monthly reports. The rating model adopted by the Bank automatically downgrades an account to weak list (rating E+) or watch list (rating E) depending upon the length of the past dues. An account is downgraded to impaired asset if the past due status extends beyond 90 days. Provisions are made based on IAS 39 requirements.

In addition high value NPAs are subjected to quarterly revaluation of security based on 3 independent valuations with the lowest value considered in order to ensure that all provisions are made on a conservative basis.

A collective impairment provision is also maintained as additional cushion based on the PDs for each rating category. Since the Bank does not have its own PDs in the absence of adequate historical data, the PDs of external rating agencies have been mapped to the Banks internal rating categories on a best effort basis. This is an improvement over the previous methodology which did not consider the PDs for entire lending portfolio.

In order to minimize potential legal risks, the Bank has adopted best practices in lending activities especially in the area of consumer lending which includes dissemination of information relating to products, tariffs etc. through various media including website, literature and documentation, complaint disposal mechanism, staff training etc. There were no material legal claims against the Bank as of 31 December 2009. A separate Compliance department is functional which monitors the compliance risk.

The Bank has adopted a policy for conducting stress testing on various portfolios in order to determine additional capital requirements as part of its ICAAP.

PILLAR III - DISCLOSURES

In line with CBB guidelines the Bank has put in place a Disclosure Policy approved by its Board. The policy defines a framework for the disclosure obligations and a committee has been established which oversees the entire process.

DEPOSIT PROTECTION SCHEME

Deposits held with the Bank are covered by the Deposit Protection Scheme (the Scheme) established by CBB regulations concerning the establishment of a Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks associated with the Scheme is unable to meet its deposit obligations.

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DISCLOSURE -1 CAPITAL STRUCTURE

	BD '000	
NET AVAILABLE CAPITAL	Tier 1	Tier 2
Paid-up share capital	56,550	
Reserves		
Share premium	-	
Capital reserve	-	
Statutory reserve	3,273	
Others		
Retained earnings brought forward	5,702	
Less : Regulatory deductions	-	
Less : Goodwill	(3,942)	
Current profits		8,223
NET AVAILABLE CAPITAL	61,583	8,223
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		69,806

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

	BD '000	
	Risk Weighted Assets*	Capital Requirement
Claims on sovereign	8,144	977
Claims on public sector entities	3,903	468
Claims on banks	199,957	23,995
Claims on corporate	20,437	2,452
Regulatory retail portfolios	163	20
Equity investments	15	2
Mortgage	49,622	5,955
Past due exposure	5,798	696
Holding real estate	1,329	159
Other assets	7,109	853
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	296,477	35,577
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	21,936	2,632
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)**	13,863	1,664
TOTAL CAPITAL REQUIREMENT	332,276	39,873

* Exposures post credit risk mitigation and credit conversion.

** Market risk capital requirement only relates to foreign exchange risk.

Pillar III Disclosures - Basel II for the year ended 31 December 2009

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS (continued)

	BD '000	BD '000	BD '000
	Foreign exchange exposure	Risk Weighted Assets	Capital Requirement
Maximum market risk	171,068	1,365	171
Minimum market risk	9,645	772	96

DISCLOSURE - 2 - B. CAPITAL ADEQUACY RATIOS

Tier 1	Capital Adequacy Ratio (Tier 1 Capital / Risk weighted assets)	18.53%
Total	Capital Adequacy Ratio (Total Capital / Risk weighted assets)	21.01%

DISCLOSURE - 3 GROSS CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

	BD '000	
	As at 31 December 2009	Average monthly balance
Balances with central banks	44,525	37,968
Due from banks	358,947	361,626
Loans and advances to customers	118,413	114,972
Non-trading investments - Bonds	12,410	9,732
Interest receivable and other assets	5,313	5,079
TOTAL FUNDED EXPOSURES	539,608	529,377
Contingent liabilities	8,137	8,739
Undrawn loan commitments	13,929	14,025
TOTAL UNFUNDED EXPOSURES	22,066	22,764
TOTAL CREDIT RISK EXPOSURE	561,674	552,141

The Bank has calculated the average monthly balance based on the month end balances for the year ended 31 December 2009.

DISCLOSURE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT RISK EXPOSURES

	BD '000			
	GCC countries	Iran and Middle East Countries	Europe	Total
Balances with central banks	36,381	8,144	-	44,525
Due from banks	25,587	260,742	72,618	358,947
Loans and advances	75,821	42,592	-	118,413
Non-trading investments - Bonds	-	12,410	-	12,410
Interest receivable and other assets	1,186	4,127	-	5,313
TOTAL FUNDED EXPOSURES	138,975	328,015	72,618	539,608
Contingent liabilities	7,646	491	-	8,137
Undrawn loan commitments	10,724	3,205	-	13,929
TOTAL UNFUNDED EXPOSURES	18,370	3,696	-	22,066
TOTAL CREDIT RISK EXPOSURE	157,345	331,711	72,618	561,674

DISCLOSURE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT RISK EXPOSURES

	BD '000		
	Funded	Unfunded	Total
Manufacturing	12,200	-	12,200
Construction	15,942	87	16,029
Financial	444,650	18	444,668
Trade	10,096	9,183	19,279
Personal / Consumer finance	7,421	1,883	9,304
Commercial real estate financing	36,331	8,930	45,261
Government	5,652	-	5,652
Transport	527	93	620
Other	6,789	1,872	8,661
TOTAL CREDIT RISK EXPOSURE	539,608	22,066	561,674

Pillar III Disclosures - Basel II for the year ended 31 December 2009

DISCLOSURE - 6 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

The balances in respect of related parties as of 31 December 2009 are as follows:

	BD '000
Shareholders and related parties	
Placements (included in due from banks) *	135,702
Loans and advances to shareholders (included in due from banks) *	97,704
Loans and advances to other related parties (included in loans and advances) **	9,124
Deposits from shareholders (included in due to banks) *	22,573
Medium term borrowings *	32,510
Directors and key management personal	
Loans and advances	42
Deposits	109

	BD '000
Income statement	
Shareholders and related parties	
Interest income from shareholders*	9,455
Interest income from other related parties**	683
Fees and commissions income from shareholders*	396
Fees and commissions income from other related parties **	48
Interest expense *	760

* These relate to two of the Bank's shareholders.

** These relate to two affiliates of the Bank's shareholders.

Key management compensation

Compensation for key management, including executive directors, comprises the following:

	BD '000
Salaries and other short term benefits	689
End of service benefits	25
	714

In 2009 Directors' sitting fees amounted to BD 39 thousand.

Pillar III Disclosures - Basel II for the year ended 31 December 2009

DISCLOSURE - 7 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit (BD '000)	390,959

None of the individual exposures qualify for capital deductions from tier 1 and tier 2 capital.

DISCLOSURE - 8 RESIDUAL CONTRACTUAL MATURITY

	BD '000				
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Total
Balances with central banks	41,620	-	-	2,905	44,525
Due from banks	177,947	70,541	110,459	-	358,947
Loans and advances	38,336	12,217	17,488	50,372	118,413
Non-trading investments	10,033	-	2,377	-	12,410
Interest receivable and other assets	2,657	2,656	-	-	5,313
TOTAL FUNDED EXPOSURES	270,593	85,414	130,324	53,277	539,608
Contingent liabilities	1,417	3,016	2,732	972	8,137
Undrawn loan commitments	8,445	2,383	3,101	-	13,929
TOTAL UNFUNDED EXPOSURES	9,862	5,399	5,833	972	22,066
TOTAL	280,455	90,813	136,157	54,249	561,674

Note: The Bank had no assets, liabilities or off balance sheet items with maturities exceeding five years.

DISCLOSURE - 9 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND PROVISIONS

	BD '000				
	Impaired and past due loans	Specific provision	Recoveries during the year	Written off during the year	Collective impairment provision
Manufacturing	2,227	-	-	-	32
Construction	4,171	542	(419)	(14)	2,585
Finance	1,670	-	-	-	15
Trade	884	625	(33)	(15)	172
Personal / Consumer finance	1,901	578	(46)	(26)	35
Transport	638	190	-	-	-
Other	667	219	(4)	(2)	17
TOTAL	12,158	2,154	(502)	(57)	2,856

Also refer to table 12 for geographic and sectoral disclosures of impaired and past due loans.

Pillar III Disclosures - Basel II for the year ended 31 December 2009

DISCLOSURE - 10 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS

BD '000

	GCC countries	Iran and Middle East Countries	Total
Specific impairment provision	2,154	-	2,154
Collective impairment provision	2,646	210	2,856
TOTAL	4,800	210	5,010

DISCLOSURE - 11 MOVEMENT IN PROVISION FOR LOANS AND ADVANCES

BD '000

	Retail			Corporate			
	Specific	Collective	Total retail Provision	Specific	Collective	Total corporate Provision	Total
At 1 January 2009	362	-	362	1,028	1,267	2,295	2,657
Charge for the year	346	-	346	977	1,589	2,566	2,912
Recoveries	(76)	-	(76)	(426)	-	(426)	(502)
Net provision	270	-	270	551	1,589	2,140	2,410
Amounts written off	(36)	-	(36)	(21)	-	(21)	(57)
At 31 December 2009	596	-	596	1,558	2,856	4,414	5,010

The provision relates entirely to exposures to non-banks.

DISCLOSURE - 12 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

BD '000

	Three months to one year	One to three years	Over three years	Total	%
GCC Countries	4,444	1,175	2,641	8,260	68%
Iran and Middle East Countries	2,738	1,160	-	3,898	32%
TOTAL	7,182	2,335	2,641	12,158	100%
	59%	19%	22%	100%	

DISCLOSURE - 12 IMPAIRED LOANS - AGE ANALYSIS (continued)

ii) By Industry Sector

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
Manufacturing	1,067	1,160	-	2,227	18%
Construction	3,438	171	562	4,171	34%
Finance	1,670	-	-	1,670	14%
Trade	-	139	745	884	7%
Personal / Consumer finance	1,007	176	718	1,901	16%
Transport	-	638	-	638	5%
Other	-	51	616	667	6%
TOTAL	7,182	2,335	2,641	12,158	100%
	59%	19%	22%	100%	

DISCLOSURE - 13 PAST DUE BUT NOT IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
GCC Countries	9,021	3,357	13,903	26,281	74%
Iran and Middle East Countries	-	8,962	398	9,360	26%
TOTAL	9,021	12,319	14,301	35,641	100%
	25%	35%	40%	100%	

ii) By Industry Sector

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
Construction	880	-	3,270	4,150	12%
Finance	-	5,370	-	5,370	15%
Trade	194	3,921	496	4,611	13%
Personal / Consumer finance	28	488	55	571	2%
Commercial real estate financing	5,433	2,162	10,480	18,075	50%
Other	2,486	378	-	2,864	8%
TOTAL	9,021	12,319	14,301	35,641	100%
	25%	35%	40%	100%	

Pillar III Disclosures - Basel II for the year ended 31 December 2009

DISCLOSURE - 14 RESTRUCTURED CREDIT FACILITIES

	BD '000
Balance of restructured credit facilities at 1 January 2009	1,033
Amount of loans restructured during the year	7,985
Restructured credit facilities repaid / settled	(790)
Balance of restructured credit facilities at 31 December 2009	8,228

Restructured credit facilities have no significant impact on the Bank's present and future earnings. The basic nature of concessions granted is extension of repayment period in order to suit the repayment ability of the customer.

DISCLOSURE - 15 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

	BD '000	
	Gross exposure	Eligible CRM
Cash	831	-
Claims on sovereign	193,949	-
Claims on public sector entities	24,135	20,232
Claims on banks	227,587	-
Claims on corporate	39,809	19,372
Regulatory retail portfolio	303	86
Equity investments	10	-
Mortgage	53,447	-
Past due exposure	8,247	3,719
Holding real estate	1,329	-
Other assets	7,109	-
TOTAL	556,756	43,409

DISCLOSURE - 16 INTEREST RATE RISK

	BD '000				
ASSETS	Less than three months	Three months to one year	Over one year	Non-interest sensitive	Total
Cash and balances with central banks	32,700	-	-	12,656	45,356
Due from banks	246,537	109,706	-	2,704	358,947
Loans and advances to customers	82,693	10,221	25,499	-	118,413
Non-trading investments	12,410	-	-	10	12,420
	374,340	119,927	25,499	15,370	535,136
LIABILITIES					
Due to banks	248,970	63,850	-	-	312,820
Medium term borrowings	48,764	-	-	-	48,764
Customers' deposits	72,249	18,399	438	17,640	108,726
	369,983	82,249	438	17,640	470,310
Total interest sensitivity gap	4,357	37,678	25,061	(2,270)	
Cumulative interest sensitivity gap	4,357	42,035	67,096	-	

DISCLOSURE - 17 SENSITIVITY ANALYSIS - INTEREST RATE RISK

	BD '000	
	Increase in Basis points	Impact on net interest income
United States Dollar	200	198
Bahraini Dinar	200	646
Euro	200	(228)
Iranian Rials	200	248

The impact of a 200 basis point decrease in interest rates will be approximately opposite to the impact disclosed above.

DISCLOSURE - 18 EQUITY INVESTMENT

	BD '000	
	Gross exposure	Capital requirement
Privately held	10	2
TOTAL	10	2

DISCLOSURE - 19 GAINS (LOSSES) ON EQUITY INVESTMENTS

There were no realised or unrealised gains (losses) from equity investments during the year.