INTENT
&
INTEGRITY

بنك المستقبل

futurebank

ANNUAL REPORT 2011

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
Muharraq 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 - 22053351/52
Fax: +9821 - 26201311

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BUSINESS PHILOSOPHY

The business philosophy of the Bank is characterised by its vision, mission and purpose statements as detailed below.

VISION

To be recognised as a Bank for its ability to build financial bridges connecting our customers and regional markets.

MISSION

To maximise stakeholders' interests by becoming the partner of choice for all those who value personalised attention.

PURPOSE

To serve the community with care and conscience and make a tangible difference to lives.

FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008	2007
Income and Expenses (BD millions)					
Net interest income	**20.9**	14.4	13.1	13.7	11.4
Other income	**(0.7)**	1.0	1.0	0.8	1.0
Total income	**20.2**	15.4	14.1	14.5	12.4
Operating expenses	**4.0**	4.0	3.5	3.3	2.6
Profit before provisions	**16.2**	11.4	10.6	11.2	9.8
Net provision / write-back	**(6.7)**	(1.3)	2.4	(0.5)	(1.0)
Impairment of goodwill	**(1.0)**	(1.0)	-	-	-
Net profit / (Loss)	**8.4**	9.1	8.2	10.7	8.8
Financial Position (BD millions)					
Total assets	**532.3**	524.3	547.5	547.5	498.1
Net loans	**141.3**	151.7	118.4	113.1	83.3
Due from banks	**302.8**	276.8	358.9	381.0	340.8
Investments	**36.5**	50.3	12.4	8.8	10.2
Total deposits	**372.4**	371.1	421.5	446.4	417.4
Medium term borrowings	**58.6**	60.0	48.8	31.9	16.6
Customer deposits	**140.8**	131.7	108.7	95.9	67.7
Shareholder's equity	**96.6**	88.2	73.7	63.3	58.2
Ratios (percentage)					
Profitability					
Net income / Average equity	**9.1**	11.3	12.2	17.8	17.9
Net income / Average assets	**1.6**	1.7	1.5	2.1	2.4
Operating expenses / Total income	**19.8**	26.1	24.8	23.0	21.0
Earning per share (BD/USD)	**0.105**	0.128	0.152	0.237	0.209
Liquidity					
Customer deposits / Net loan and advances	**99.6**	86.8	91.8	84.7	81.2
Loans and advances / Total assets	**26.5**	28.9	21.6	20.7	16.7
Liquid assets / Total assets	**41.7**	38.3	44.6	39.1	52.4
Capital Adequacy					
Capital adequacy	**20.2**	25.7	21.0	15.6	20.0
Equity / Total assets	**18.1**	16.8	13.5	11.6	11.7

CHAIRMAN'S STATEMENT

Our intent continues to guide us forward, empowering us to deliver on our commitments with integrity and determination.

On behalf of the Board of Directors of Futurebank, I am very pleased to present, the audited financial results for the year ended 31 December, 2011. This period served as a notable one within the Bank's journey, reflecting upon its firm resolve to overcome adverse challenges and continue on its set course of excellence, sustainability and growth.

The Bank registered a net profit of BD 8.4 million, as compared to last year's net profit of BD 9.1 million. This slight decrease of 7.1 per cent was attributed mainly to higher provisioning done by the Bank towards strengthening its financial assets besides adopting the principles of prudence and conservatism. Notably, Futurebank's Balance Sheet for the 2011 period reflected well upon the Bank's steady portfolio, rising up 1.5 per cent from BD 524.3 million in 2010 to BD 532.3 million for the period under review.

The Bank's capital was also increased by BD 8.1 million during the year, to reach a paid-up capital of BD 83.1 million. Furthermore, total shareholders' equity amounted to BD 97.6 million, while the Bank's Capital Adequacy Ratio remained sufficiently high and stable at 20.2 per cent.

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 build upon the inherent strength of each of its constituents and is committed to facilitating meaningful exchanges that will benefit both the national economies of Iran and the Kingdom of Bahrain.

With the ongoing challenges posed by economic sanctions from Western Governments (US and EU) upon Iran, Futurebank's management remained focused on reviewing and updating the Bank's strategy moving forward, retaining a conservative and diligent approach throughout the year. This cautionary stance was implemented in light of the most recent, adverse market conditions within Bahrain, along with the wider region.

Thus the Bank's previously mapped out Board approved strategy of aggressively addressing growth opportunities within the Kingdom naturally came into focus, as unduly and unexpected market stresses forced us to place a number of key initiatives on hold.

Aligned with the new Corporate Governance Guidelines, the Bank developed a New Board Charter to specifically oversee the development and assessment of the Bank's approach to corporate governance. The new charter clearly establishes the role of the Board towards carrying out its duties, and is aligned with the Bank's firm intent to serve out its mission with the highest levels of integrity, enabled by stringent processes which will ensure accountability and transparency. This initiative is taken on with a view to protect the best interest of Futurebank's shareholders. The charter defines the specific responsibilities of the Board of Directors and is aimed at enhancing the co-ordination and communication between the CEO and the Board. Even more specifically, the charter will clarify both the Board and Management accountability for the benefit of the Bank and its shareholders.

Also furthering our intent to remaining on-course with our commitment to Bahrain, we are pleased to report that the construction of Futurebank's new Head Office building situated in the Al Seef area has progressed to 90% completion, with finalization expected by June 2012. Plans are also underway to populate this state-of-the-art property with a staffing move by mid-2012.

The last few years have witnessed drastic changes, as liberalisation has occurred and financial markets have experienced the advent of competition bringing world – leading modern services into the market. On behalf of our shareholders, the Board of Directors acknowledges with great appreciation the contribution of Futurebank's management and dedicated staff, who continued to uphold the highest standards of operational excellence throughout this testing period. We also take this opportunity to express our deepest gratitude to all our shareholders, clients and correspondents for their valuable association, while thanking the authorities in Bahrain, especially the Central Bank of Bahrain for their invaluable and continued support & guidance.

By the grace of Allah the Almighty, the Board of Directors envision a steady road for the Bank's long-term plans and are assured of the progress being made to overcome all current and upcoming challenges. Proceeding along a well-mapped and prudent road map, the Bank is being positioned to succeed well into the future.

Our intent continues to guide us forward, empowering us to deliver on our commitments with integrity and determination. We will continue to strengthen our position in the Bahraini banking and finance industry, poised to lead towards a better future for all of our stakeholders.

Dr. Hamid Borhani
Deputy Chairman

BOARD OF DIRECTORS

BOARD COMMITTEE MEMBERS

Mr. Mahmoud Reza Khavari
Chairman

Board Member since 2009
Chairman and Managing Director
Bank Melli - Iran - **Up to October 2011**
Bachelor of Law from University of Tehran and Master of Law from the National University of Iran. Over 30 years of banking experience holding various managerial & directorial positions in Bank Melli Iran as: Chairman & Managing Director.
Held position up to October 2011.

1- **Dr. Hamid Borhani**
Deputy Chairman

Board Member since 2006
CEO of Bank Saderat plc. - UK
PhD in Business Management & Accounting from Azad University. Over 30 years of banking experience holding various managerial & directorial positions in Bank Saderat Iran as: Chairman & Managing Director; BSI Board member; BSI Regional Manager; Chairman of Bank Saderat PLC - London and Vice Governor of Bank Markazi Jomhuri Islami Iran.

2- **Mr. Abdul Aziz Ahmed A. Malek**
Deputy Chairman

Board Member effective 2007
Board Member - Taib Bank, Bahrain
Gulf Executive Management & Strategic Leadership Programme from Colombia University, New York. Executive Programme from INSEAD, Paris. BSC in Physics & Pure Mathematics from Riyadh University. Over 25 years or banking experience holding various managerial positions in Chemical Bank, New York. BMB Bank, Bahrain.

3- **Dr. Valiollah Seif**
Director

Board Member since 2004
Board Member & Managing Director
Karafarin Bank - Iran
PhD in Accounting & Finance from Allameh Tabatabaei University. Over 30 years of banking experience as Finance Director, Board Member of Bank Sepah, Chairman of the Board and Managing Director of Bank Mellat, Bank Saderat, Bank Sepah and Bank Melli Iran.

4- **Mr. Adel Al Mannai**
Director

Board Member effective 2007
Board Member - Taib Bank, Bahrain
Master of Business Administration- University of Glamorgan. UK. Over 30 years of overall banking experience.

5- **Mr. Gholam H. Zaferani**
Director

Board Member since 2004
Chief Executive Officer & MD - Arian E-Bank
Director General of Persian Gulf, Eastern European, Far East and Central Asian Countries of Bank Melli Iran From 1996-2001. Board Member covering International Division of Bank Melli Iran from 2001-2006
CEO - Saman Bank from 2006-2010

6- **Mr. Gholam Souri**
CEO & Managing Director

Board Member since 2004
MBA in Banking from Iranian Banking Institution. Over 26 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as : General Manager of International Division & Regional Office Dubai; General Manager Bank Saderat Iran branches.

7- **Mr. Abbas Fatemi Torshezi**
Deputy CEO & Director

Board Member since 2004
BA in English Language, Tehran University. Over 42 years of overall banking experience. Holding senior managerial positions in Bank Melli Iran as Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch.

CORPORATE GOVERNANCE REPORT

THE BANK'S PHILOSOPHY ON CODE OF GOVERNANCE

Future Bank is committed to the best practices in the area of corporate governance, in letter and in spirit. The Bank believes that good corporate governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The objectives can be summarised as:

- To protect and enhance shareholder value.
- To protect the interest of all other stakeholders such as customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and customer service and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

The above Corporate Governance philosophy is supplemented by our Corporate Governance Guidelines which have been written in a manner that they comply with the High Level Controls (HC) module of the CBB Rulebook.

The Bank is committed to:

- Ensuring that the Bank's Board of Directors meets regularly, provides effective leadership and insights in business and functional matters and monitors Bank's performance.
- Establishing a framework of strategic control and continuously reviewing its efficacy.
- Establishing clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting.
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively.
- Ensuring that the Chairman has the responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the Bank and implementation of the policies laid down by the Board. The role of the Chairman and the Board of Directors are also guided by the CBB rule book High Level Control Module, with all relevant amendments.
- Ensuring that a senior executive is made responsible in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the Government of Kingdom of Bahrain/CBB and other regulators and the Board, and reports deviations, if any.

BOARD OF DIRECTORS INFORMATION

Board Composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association. The bank shall be managed by six to nine Directors. The Directors shall be appointed by the shareholders. Each shareholder shall appoint a minimum of two Directors subject to each shareholder having an equal number of Directors. The Board of Directors may also appoint by unanimous approval, a Managing Director and two Deputy Managing Directors who may be appointed additional members of the Board of Directors as recommended by them and subject to Ordinary General Assembly's approval.

The appointment of the Board of Directors is subject to the prior approval of the Central Bank of Bahrain. The classification of executive, non-executive, independent, non-independent Directors is as per the definitions stipulated by the CBB.

As on 31st December 2011, there were seven Directors on the Board including eminent professionals representing various walks of life. The composition of the Board complies with the provisions laid down in the Articles of Association. Each Director is appointed for a period of three years after which he must present himself to the Annual General Meeting of shareholders for renewal and re-appointment.

The Board is supported by the Board Secretary who provides professional and administrative support to the Board, its committees and members. The appointment of the Board Secretary is subject to the approval of the Board.

Board of Director's – Role and Responsibilities

The Bank's board draws its powers from and carries out its functions in compliance with the provisions of Articles of Association and High Level Control Module of Central Bank of Bahrain rule book. Its major role, among others includes:

- The adoption and annual review of strategy;
- The adoption and review of management structure and responsibilities;

- The adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management;
- Responsible for the preparation and fair presentation of the financial statements;
- Monitoring management performance;
- Monitoring conflicts of interest and preventing abusive related party transactions.

A formal Board Charter is in place through which the Board exercises control & judgment in establishing and revising the delegation of authority for its committees and the management. This delegation could be for authorisation of expenditure, approval of credit facilities and for other corporate actions which are approved and expressed under various policies of the bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank. In addition, strategic investments and major capital expenditure would be within the Board's authority.

As per the approved Board charter, any new Board member has to now go through a tailored induction programme. The induction is not restricted to but would include meetings with executive management, visit to the bank's facilities, presentation regarding strategic plans. This would foster a better understanding of the business environment and markets in which the Bank operates.

Remuneration of Directors

As per the Board charter, the nomination and remuneration committee shall make specific recommendations to the board on the remuneration of Board members. Currently no specific remuneration is paid to any Board member except for the CEO & Managing Director and the Deputy CEO & Deputy Managing Director who are executive Board members. All other Directors are paid sitting fees for the participation in the Board meetings. Participation in a meeting via telephone/video conferencing shall be considered an attendance in meetings.

Code of Conduct and Conflict of Interest

The members of the Board should ensure that they conduct their affairs with a high degree of integrity, taking note of the applicable laws codes and regulations. The Board has an approved code of conduct for the Directors. The Board has also approved the Code of Conduct of all the members of the staff of the Bank. A separate "Whistle Blowing" policy covering all the staff of the Bank is adopted. The code of conduct binds the signatories to the highest standard of professionalism and due diligence in discharging their duties. The Board has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/committee. The particular Director abstains from the discussion and voting/approval process. The concerned Director is also required to inform the Board of the potential conflict of interest in their activity and abstain from voting on the matter.

MEETINGS OF THE BOARD

The Bank's Board meets a minimum of four times a year and during the year 2011, four Board meetings were held. The dates of the meetings and the attendance of the Directors are given as under:

Dates and attendance of directors at the Quarterly Board meetings during 2011

Names of the Board Members	29 Jan	7 May	30 July	29 Oct
Mr. Mahmoud Reza Khavari (up to Oct 2011)		•	•	
Dr. Hamid Borhani* (Non-Independent & Executive)	•	•	•	•
Mr. Abdul Aziz A. Malek (Independent & Non-Executive Director)	•	•	•	•
Dr. Valiollah Seif (Independent & Non-Executive Director)	•		•	•
Mr. Gholam Hussain Zafarani (Independent & Non-Executive Director)	•	•	•	•
Mr. Adel Mannai (Independent & Non-Executive Director)	•	•	•	•
Mr. Gholam Souri (Non-Independent & Executive Director)	•	•	•	•
Mr. Abbas Fatemi (Non-Independent & Executive Director)	•	•	•	•

*Although Dr Borhani has been shown as "Non-Independent and Executive" Director as per the HC guidelines, the Bank considers him as a "Non-Independent and Non-Executive Director" as he is not involved in the day- to- day functioning of the Bank, nor is he an employee of BSI Tehran. During end 2011 he was appointed as MD of BSI plc. London (which is incorporated under laws of United Kingdom (UK) and regulated by the Financial Services Authority of UK) and a subsidiary of BSI-Tehran.

CORPORATE GOVERNANCE REPORT

BOARD LEVEL COMMITTEES

Board Audit Committee:
Dr. Valiollah Seif – Chairman of Audit Committee
Mr. Abdul Aziz A. Malek
Mr. Gholam H. Zaferani

Mr. Vistasp Sopariwalla – Corporate Secretary

Nomination, Remuneration and Corporate Governance Committee:
Dr. Hamid Borhani
Mr. Mahmoud Reza Khavari (up to October 2011)
Mr. Abdul Aziz A. Malek

In terms of the Article 21(5) of the Bank's Articles of Association and in line with the High Level Controls Module of CBB rule book (HC-1.8), the Board constituted three committees namely (a) The Audit Committee (b) The Nomination and Remuneration Committee and (c) The Corporate Governance Committee. Subsequently, the Board decided and approved that instead of a separate Corporate Governance Committee, the Nomination and Remuneration Committee will be made responsible for developing and recommending changes from time to time in the bank's Corporate Governance policy framework. Currently, therefore, the Bank has only two Board level Committees viz. the Audit Committee and the Nomination, Remuneration & Corporate Governance Committee. These Committees provide effective professional support in the conduct of Board level business in key areas like Audit, Accounts, Risk, Compliance, Corporate Governance and Nomination & payment of remuneration to Directors/Senior Management.

AUDIT COMMITTEE OF THE BOARD

The Audit Committee was first constituted on 07.07.2004 and last reconstituted on 29.01.2011. The Audit committee functions as per CBB guidelines and complies with the provisions of Audit Committee Charter.

Functions and Responsibilities of Audit Committee

The Audit Committee's major functions include the following:

- Consider the major findings of audit and compliance reports as well as any special investigations, particularly in relation to high-risk items, and management responses thereto, and monitor the implementation of agreed action points within stipulated deadlines.
- Review the arrangements established by the Management for compliance with regulatory and financial reporting requirements contained in statute and with the requirements of supervisors and the implementation of such arrangements.
- Review annual and periodic financial statements of the Bank and the external auditors report thereon and report to the Board on their completeness and accuracy.
- Review regulators and external auditor's comments in the context of inspections and audits.
- Review all correspondence with regulatory authorities.

A formal audit committee charter, duly approved by the Board is in place.

Composition and Attendance during 2011

The Audit Committee has three members of the Board of Directors with each Shareholder nominating one director. Meetings of the Audit committee are chaired by an Independent director. The constitution and quorum requirements, as per CBB guidelines/Audit Committee Charter, are complied with meticulously. During the year, four meetings of Audit Committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Audit Committee meetings during 2011

The Board Audit committee meets a minimum of four times a year.

Names of the Board Members	29 Jan	7 May	30 July	29 Oct
Dr. Valiollah Seif	•		•	•
Mr. Abdul Aziz A. Malek	•	•	•	•
Mr. Gholam Hussain Zafarani	•	•	•	•

NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE OF THE BOARD

The Remuneration Committee was first constituted in December 2007 and last reconstituted as Nomination, Remuneration & Corporate Governance Committee. This Committee functions as per CBB guidelines and complies with the provisions of Nomination, Remuneration & Corporate Governance Committee Charter.

Functions of Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance Committee's major functions include the following:

- Assisting the Board to ensure that it is comprised of Directors with the appropriate mix of skills, experience and expertise to discharge its mandate effectively.
- Assisting the Board in ensuring that the Bank has in place appropriate remuneration policies designed to meet the needs of the Bank and to enhance corporate and individual performance.
- Overseeing the development and the regular assessment of the Bank's approach to Corporate Governance issues and ensuring that such approach supports the effective functioning of the Bank and overseeing the process, structure and effective system of accountability by management to the Board of Directors and by the Board to the shareholders.

A formal Nomination, Remuneration & Corporate Governance Committee charter, duly approved by the Board is in place.

Composition and Attendance during 2011

The Nomination, Remuneration & Corporate Governance Committee has three non-executive Directors as members as determined by the Board. The constitution and quorum requirements, as per CBB guidelines/ Nomination, Remuneration & Corporate Governance Committee Charter, are complied with meticulously. During the year, two meetings of the Committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of Directors at Nomination, Remuneration & Corporate Governance Committee meetings during 2011

The Board Nomination Remuneration & Corporate Governance Committee meets a minimum of two times during the year.

Names of the Board Members	30 July	29 Oct
Dr. Hamid Borhani	•	•
Mr. Mahmoud Reza Khavari (up to October 2011)	•	
Mr. Abdul Aziz A. Malek	•	•

ANNUAL GENERAL MEETING

The Annual General Meeting for the year 2010 was held on the 10th April 2011 marking a new term for the Board of Directors. The bank discloses/reports to the shareholders in the AGM the details under the public disclosure module of the rule book. Such disclosures include the amount paid to the Board of Directors and the executive management, which are included in the Annual Financial Statements.

As per the requirements of the Nomination, remuneration and Corporate Governance Committee appraisal systems has been put in place and have been incorporated by the bank to evaluate the performance during the year 2011.

COMMUNICATION STRATEGY

The bank has an open policy on communication with its stakeholders. The bank has an approved "Disclosure policy" which is consistent with Basel II requirements and with the requirements of the CBB rule book. The Board will ensure that the Annual General Meeting (AGM) is conducted in an efficient manner and serves as a crucial mechanism in active shareholder communications. The bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. The Bank requires its statutory auditors to attend the annual shareholders meeting and be available to answer shareholder's questions concerning the conduct & conclusion of the audit.

The Bank provides information on all events that merit announcement, either on its website i.e. www.futurebank.com.bh or through newspapers and other channels. The bank's four year financials are posted on the website through the annual reports. The bank internally communicates with its staff on general matters and share information on general interest and concern.

REMUNERATION POLICY

The Remuneration Policy of Futurebank enumerates the framework which provides for a competitive level of compensation to attract and retain talented personnel in the senior management. The level of compensation is commensurate with the relative seniority, experience and the responsibilities. The Bank's reward policy is performance based and goal oriented which is based on a performance based appraisal system across the organisation.

MAJOR SHAREHOLDERS, VOTING RIGHTS & DIRECTORS' INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank through its Trustee arrangements with Dana Trust	Bahraini	27,700,000
Bank Saderat Iran	Iranian	27,700,000
Bank Melli Iran	Iranian	27,700,000

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%	83,100,000	3	100
50% and above	------	------	------
Total	**83,100,000**	**3**	**100**

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary shares 83,100,000	3	83,100,000

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, 2011


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CEO'S STATEMENT & MANAGEMENT REVIEW

Our firm intent is rooted in a supreme sense of duty and integrity, which drives us to deliver on our promises and achieve steadfast results.

I am pleased to report that Futurebank has recorded a Net Profit of BD 8.4 million in 2011. Although this figure fell short of the Bank's Net Profit achievement of BD 9.1 million in the previous year, it reflects a strategy of resilience and caution. This slight decrease of 7.1% was mainly due to higher provisioning necessitated towards strengthening the Bank's balance sheet and core business.

In a year that was not dissimilar in many respects in 2008-09 the Bank's performance was achieved against an unnerved global economic background, with an unprecedented level of volatility in regional and international capital markets. The GCC's economies, although not immune to these challenges, continued to weather the consequences of the continued financial crisis.

OPERATING ENVIRONMENT

Throughout the 2011 period, the region's key markets witnessed a great deal of turmoil, amidst rising socio-political tensions. The resultant depressed economic outlook which prevailed in much of the region also impacted Bahrain. Despite weathering the worst of the global financial crises in earlier recessionary years, Bahrain witnessed an unexpected decline in business activity for much of the period under review.

In light of the foreseeable general economic climate, Futurebank adopted a revamped strategy moving forward, with a view to reap the benefits of the expected recovery as and when it materialises. In keeping with this prudent approach, the Bank also reassessed its expansion plans within the Kingdom of Bahrain.

OPERATIONAL ACHIEVEMENTS

Despite the challenges and obstacles presented by regional as well as local turmoil within the Kingdom of Bahrain, the implementation of Futurebank's long term growth and profitability framework continued to remain at the core of the Bank's activities. Several key initiatives were successfully realized during the course of the year.

In 2011, Futurebank reviewed its short to medium term operational stance within Bahrain, with an aim to enhance its services and ability to meet the needs of its growing customer base. Most notably, the Bank increased the spread of its ATMs across the Kingdom from 17 to 20. This drive was aimed at increasing its customer service capabilities, as well as driving higher penetration levels across the local Bahraini market.

Considering the challenges posed during the period under review, the Bank's Balance Sheet remained stable with a marginal increase of 1.5%, resulting in BD 532.3 million as opposed to last year's BD 524.3 million. Customer Deposits increased during the period under review from BD 131.7 million in 2010 to BD 140.8 million. A comfortably high Capital Adequacy Ratio of 20.2% was also maintained, as of December 2011, reflecting positively upon the soundness and stability of the Bank's overall financial performance.

In keeping with its unwavering commitment to the highest quality standards, Futurebank renewed and extended its ISO 27001 certification for another 3 years. This achievement marks the Bank's commitment to maintaining and enhancing quality standards across all areas of its operation.

Meanwhile the Bank focused on prudently safeguarding its asset base and underwent a period of reassessment. Expansion plans related to further branch openings in Bahrain were curtailed.

Futurebank's portfolio in Iran witnessed its balance sheet exposure declining at the end of 2011 in line with the phased reduction of the Bank's asset base.

On another front the Bank secured Board approval for the adoption of the ICAAP (Internal Capital Adequacy Assessment Plan), with new software being purchased which will stress even the future projections for the calculation of ICAAP.

Finally aligned with our long-term commitment to the Kingdom of Bahrain our new global headquarters, "The Futurebank Towers", stand on the verge of completion and are coming up as a landmark in Al Seef area, with a planned move-in envisioned during 2012.

CORPORATE BANKING

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 Corporate Banking activities focus on international and institutional banking in Bahrain as well as across the Gulf region. These range from the origination of syndication deals for large corporate / Government Organizations, small & medium enterprises, banks and financial institutions to participation in syndication deals arranged by other reputed international banks.

During the year, the Bank developed a RAROC Model (tool for pricing), aimed at strengthening its credit business process. This work towards improving the quality of decision making and the optimum usage of capital, effectively infusing a proper risk reward system into our relationship banking model, which allows us to work with clients, to effectively create wealth and value over the longer term.

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.

Futurebank extends a wide spectrum of retail banking products centered on mortgage finance, personal loans and auto financing. The Bank through its newly created retail outfit will be 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

CEO'S STATEMENT & MANAGEMENT REVIEW

effectiveness of its customer services platform, to gain a respectable share of the local retail banking scene.

INFORMATION TECHNOLOGY

Technology remains at the forefront of Futurebank's strategy and is employed as a strategic business tool for a competitive advantage. We intend to harness our technology in an effective and cost-efficient manner to achieve superior standards of customer service.

In line with Futurebank's strategic growth plans, 2011 witnessed the successful implementation of cutting edge technological tools, across the Bank's operations, including the introduction of a new Core Banking System "TEMENOS", which went into effect from January 2011.

"TEMENOS" not only ensures Futurebank's compliance with a higher regulatory environment, but is also aligned with our ongoing aim of extending better customer services, enabled by the latest technological advancements. Our heartiest congratulations go out to the entire IT, Finance and Audit teams at the Bank, for the successful implementation of the new core-banking module and all the staff involved with this project for their dedicated efforts.

The Bank during 2011 also implemented many flexible, scalable and adaptable technology frameworks and relationships which would

enable enhanced levels of operational control, IT performance, and an effective IT operating structure and control framework, thus making our technology resilient enough to learn and adapt.

RISK MANAGEMENT

In 2011, Futurebank bolstered its risk mitigation policies, to effectively create higher provision levels.

Following a more prudent approach during the year, the Bank made significantly higher provisions on its non-performing portfolio notwithstanding the collateral held by it. Thus the Bank significantly increased its provision requirements during the year towards a healthier and a stronger balance sheet.

This degree of greater stringency comes in the wake of a recent CBB policy guideline, unprecedented level of volatility in regional and international capital markets and the resultant depressed economic outlook which prevailed in much of the region and an unexpected decline in business activity for much of the period under review.

Our Collective Impairment Provisions also stood at a much higher figure of BD 2.7 million at the end of the current financial year. As we continue to move forward, we shall continue to pursue and focus on a strategy of prudent growth, whilst assessing all the inherent risks present within the financing model.

Furthermore, a newly instated Credit Analysis department bolstered our capabilities towards strengthening the Bank's credit processes, and keeping our investments as risk averse as possible. The Bank's filtering and reporting tools also remained firmly in place to counter any adverse Anti Money Laundering practices.

HUMAN RESOURCES

The Bank's revised business strategy called for major organizational changes in terms of revamping its banking operations and building a world class banking institution. The HR department played a major role towards upgrading employee's knowledge, skills and professional conduct through various training and development initiatives which were led by Capital Knowledge training institute. Training focused mainly on the introduction of new internal processes, with an emphasis on the new core banking system, as well as upgrading the professional conduct and the level of mastery of essential technical and people skills of the employees.

A "REWARD PROGRAM" was also set up with Tamkeen "Career Progression Program" rewarding employees who successfully complete their training.

A new Performance Appraisal Form and system was also designed by HR, with an aim to improve performance levels via goal setting or Management by Objectives (MBO). This allowed employees to gain a clear understanding of their roles and responsibilities and the expectation levels which they would have to meet. They also gained clarity on how their roles relate to the achievement of the Bank's objectives and goals whilst simultaneously being shown that, how best to fulfil their own personal goals.

FUTURE OUTLOOK

Moving forward, Futurebank will continue to create value for its customer and shareholders, while striving to deliver to the evolving needs of its distinguished customer base in the Kingdom of Bahrain.

The necessary revisions to our business strategy continue to be analyzed and implemented, with enhancements envisioned to impact our strategic direction across the 2011-2013 period.

We remain committed to ensuring that Futurebank's unique brand of retail banking products and services will continue to gain recognition and acceptance within the Bahraini market, aimed at impacting our Loans & Advances portfolio within the Kingdom. We continue to envision growth beyond the individual retail banking channels, by strengthening our presence and reputation within the highly lucrative local SME category.

As proven over the course of the last year, the banking sector remains key to the fortunes of the wider economy. Consumption levels decline and investments stall when the Banks are hesitant to lend capital. This has been most evident across the SMEs, which needless to mention are a crucial sector impacting future growth.

Poised to reach its growth potential, Futurebank remains resilient in the face of adversity and on course to becoming an unrivalled resource for its customers in the Kingdom of Bahrain. Our firm intent is rooted in a supreme sense of duty and integrity, which drives us to deliver on our promises and achieve steadfast results.

Lastly I take this opportunity to thank our team members, more so, our shareholders, for their support during these extraordinary times, towards bringing Futurebank to its current position and stature. I would also like to thank the competent authorities in Bahrain for their guidance and support and of course our valued customers for the trust and confidence which they have always placed in Futurebank.

Mr. Gholam Souri
Chief Executive Officer & Managing Director

GROUP MANAGEMENT

MR. GHOLAM SOURI
Chief Executive Officer & Managing Director

MBA in Banking from Iranian Banking Institution. Over 26 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as: General Manager of International Division & Regional Office Dubai; General Manager, Bank Saderat Iran Branches. Joined the Bank in 2004. Appointed as CEO w.e.f. July 2010.

MR. ABBAS FATEMI
Deputy Chief Executive Officer & Deputy Managing Director Finance, IT & Operations

BA in English Language, Tehran University. Over 42 years of banking experience. Holding senior managerial positions in Bank Melli Iran as: Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch. Joined the Bank in 2004.

MR. VISTASP BURJOR SOPARIWALLA
Head of Finance

B.Com, Chartered Accountant. Over 22 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. PRIYAN MELEDATH
Head of Information Technology and Systems

Over 15 years of enriching experience in Banking - IT Sector, qualified in IT and Accounting. Prior to joining Futurebank, was the Regional Head of Information Technology Department of Bank Melli Iran, Dubai, UAE. Joined Futurebank in January 2007.

MR. K. SURESH KUMAR
Head of Corporate Banking

CAIIB from Indian Institute of Bankers, Mumbai. Over 26 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 34 years of wholesale banking experience holding various senior positions in Bank Saderat Iran, OBU, Bahrain. Joined the bank since inception.

MR. MILIND VINAYAK KAMAT
Head of Risk

B.Com, Chartered Accountant. Over 25 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. JALIL AL-SHEHABI
Head of Compliance & MLRO

Advanced Banking Diploma. Over 30 years of banking experience 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.

MR. U.P. RAVIPRAKASH
Head of Internal Audit

B.Sc. in Maths from Chennai University, India, CAIIB from Indian Institute of Bankers. Over 28 years of banking experience mainly in Internal Audit, Corporate Banking/SME Credit and Retail Banking with State Bank of India. Held senior managerial positions in State Bank of India and worked as Assistant General Manager. Joined the bank in November 2008.

MR. RAMGOPAL SUNDRAM
Head of Operations Department

Bachelor's Degree in Commerce. Over 27 Years of banking experience mainly in banking operations, trade finance and retail banking with Syndicate Bank, ING Bank, Centurion Bank and HDFC Bank Limited as Assistant Vice President. Joined the Bank in January 2010.

MRS. MAHA MURAD ALI
Head of HR & Administration

Diploma in HRP from the Chartered Institute of Personnel Development (CIPD). Advanced Diploma in Insurance, Diploma in Computer Engineering. Over 12 years of work experience, of which 6 years of experience was in the HR & Administration field and holding various managerial positions. Joined Future Bank in August 2005.

MR. ALI GHULOOM HASSAN MALALLA
Head of Credit Department

Bachelor's Degree in Accounting and MBA holder in Finance. Over 9 Years of banking experience in both conventional and Islamic banks within the Kingdom of Bahrain. Joined the Bank in December 2010.

Mr. MEHDI HABIBOLAH RASHIDI
Head of Tehran Representative Office

Master of Business Administration from Oklahoma State University; Oklahoma, USA. Over 31 years of international banking experience holding various managerial positions at Central Bank of Iran till May 2004. Foreign exchange expert and Director of Treasury Department in ECO Trade and Development Bank, Turkey. Joined the Bank in March 2010.

GROUP MANAGEMENT COMMITTEES

TERMS OF REFERENCE OF THE VARIOUS MANAGEMENT COMMITTEES

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

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 and interest rate risk; determines the funding strategy of the Bank in order to maximise net interest income at minimal risk.

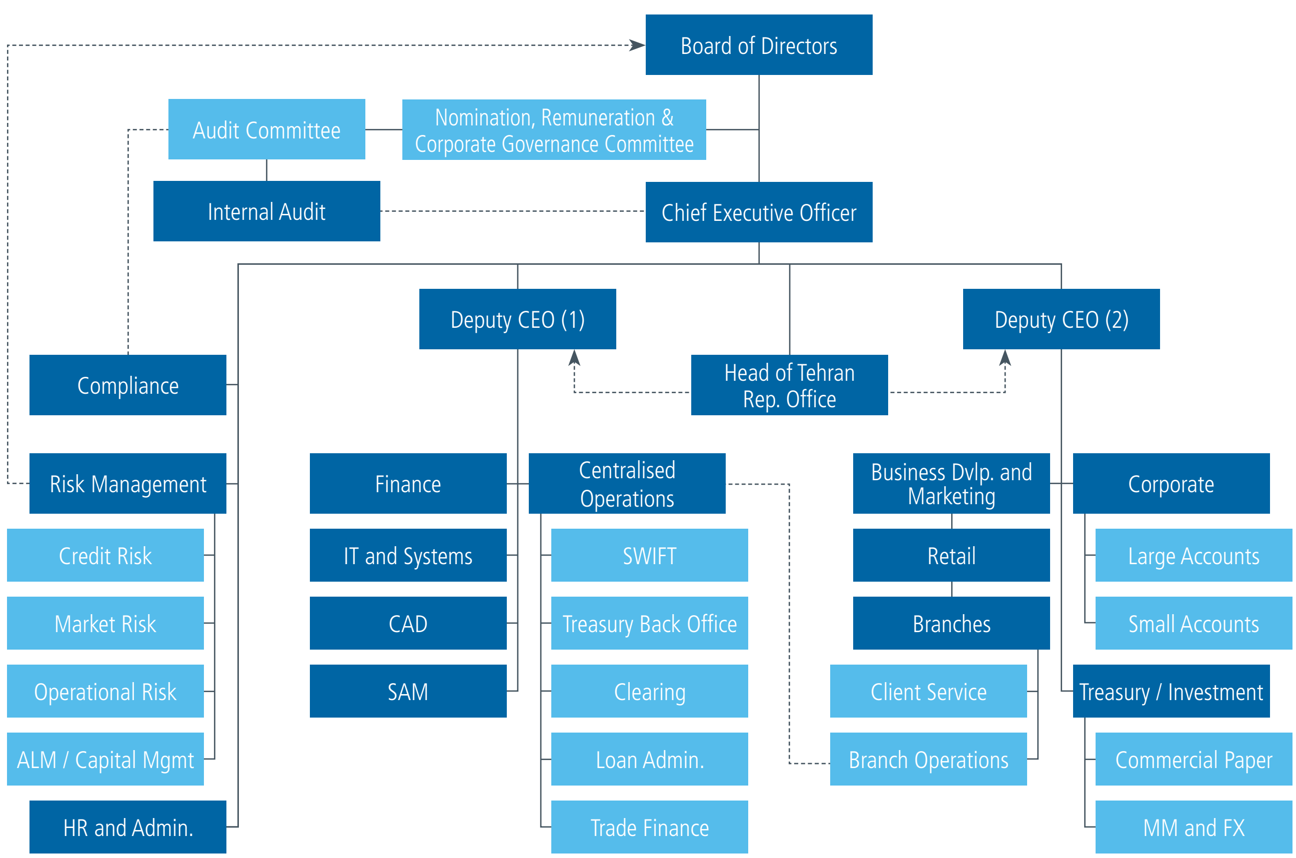
Senior Credit Committee
Implements the Credit Policy as authorised by the Board (inclusive of approval of the credit-related proposals) renewal of facilities, business services and reviews new credit-related products.

Risk Management Committee
Oversees the implementation, interpretation and follow-up of the risk policy and 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 to adhere to the disclosure requirements and provides guidelines to be followed for the relevant disclosures required as per regulation.

ORGANISATION CHART



FINANCIAL REVIEW

INCOME STATEMENT

The Bank had a challenging year as the markets witnessed a fair degree of turmoil within the region and outside. As the region continues to rebuild economically, politically & socially, and the financial markets still not fully settling down, certain sectors in regional markets were indirectly affected, particularly real estate and construction industries. Against this daunting back drop Futurebank's performance in key areas sustained quite commendably, with its fundamentals remaining resiliently sound.

While the Bank generated increased earnings from its core banking business activity it recorded increased provisions towards its non-performing portfolio. As a result, the Bank achieved a net profit of BD 8.4 million, 7.1 per cent lower than its net profit achievement of BD 9.1 million in the previous year. Considering the ongoing situation & challenging environment within which the Bank operates, the performance of Futurebank was commendable. The return on average assets during 2011 was almost on par, standing at 1.6 per cent as against 1.7 per cent in the previous year 2010.

In spite of the challenging operating environment witnessed throughout the year 2011, the Bank generated increased earnings from its core banking business activity. Thus its operating income grew by 30.5 per cent from BD 15.4 million to BD 20.2 million. 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 resilience across its principal business activities and its ability to retain substantial liquidity, with cash and placements with the Central Bank of Bahrain (including investments in sukuks & financial instruments) aggregating to BD 47.4 million as at the year-end 2011.

The Bank's net interest income increase from BD 14.4 million to BD 20.9 million in the previous year, up by 45.3 per cent. The main driver for this increase was the higher interest margin earned by the Bank on its Loans & Advances. The net interest margin, on average total assets was 4.1 per cent for 2011 compared to 2.8 per cent for 2010, reflecting the better earnings. The Bank's interest earnings were principally sustained on the increased focus on the local market and a selection of large corporate clients in Iran, seeking to finance major Iranian projects.

Despite all efforts, the overriding global turmoil currently being witnessed caused the Bank to report a net loss of BD 1.4 million in foreign exchange for the current year, mainly caused due to the depreciation in the IRR and Euro currencies. A similar loss of BD 0.3 million was realized in the previous year also. The ongoing financial crisis in the Euro zone deepens the impact of such losses. The fee and commission income along with the other operating income remained subdued during the current year and was recorded at BD 0.7 million as compared to BD 1.4 million, reducing by almost 51.6 per cent as compared to the previous year.

The Bank's operating expenses continued to show consistent efficiency improvements, amounting to BD 4.0 million compared to BD 4.1 million representing a 1.1 per cent decrease over the previous year.

The Bank was also able to control its staff costs during the period, consequently staff costs reduced by 6.6 per cent as compared to the previous year. With better net operating income and control over its expenses, the cost to income ratio improved from 26.1 per cent, to 19.8 per cent in 2011 - 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 Financial Reporting Standard (IFRS) 39 for the provisioning requirements of its non-performing portfolio.

Provisions for individually significant credit exposures are determined by discounting expected future cash flows.

Following a more prudent approach during the year, the Bank made a minimum of 20 per cent provision on all non-performing exposures over BD 100 thousand classified as sub-standard and a minimum of 50 per cent provision on all non-performing exposures over BD 100 thousand classified as doubtful, besides making a 100 per cent provision on all non-performing exposures classified as bad accounts; irrespective of the collateral. Thus the Bank significantly increased its provision requirements during the year which has led towards a healthier and a stronger balance sheet.

Consequently the Bank made additional provisions to the extent of BD 9.4 million in the current year, up from BD 2.1 million in the previous year. Simultaneously it has pursued an aggressive approach on recoveries resulting in provision write backs of BD 2.7 million. In addition to the specific provision the Bank also holds collective impairment provision of BD 2.7 million, up from BD 0.9 million in the previous year. Thus the provision coverage ratio increased substantially as at the year-end 2011 and stood at 54 per cent when compared to 41.1 per cent recorded in the previous year. This is in addition to the fact that the Bank holds significant assets as collateral with regard to many of these facilities.

Keeping in line with the International Accounting Standard's requirement, the Bank also recognised goodwill impairment to the extent of BD 1.0 million (2010: BD 1.0 million) during the current year.

BALANCE SHEET

The Bank's balance sheet remained stable, registering a marginal growth of 1.5 per cent from BD 524.3 million shown in the previous year to BD 532.3 million.

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 and the bills discounted portfolio. Consequently Loans & Advances comprised of 26.5 per cent of the balance sheet, as compared to 28.9 per cent in the previous year and the lucrative Bills discounted under the Bank's portfolio, now comprises 23.1 per cent of its Balance sheet at year-end, as compared to 28.3 per cent in the previous year.

Whilst the gross loans of the Bank dropped only marginally from BD 160.8 million to BD 157.8 million, i.e. by 1.8 per cent as compared to previous year, the Bank's net loans and advances reduced by 6.9 per cent from BD 151.7 million to BD 141.3 million. This reduction was mainly due to higher provisioning made by the Bank due to identification of certain accounts in the Non-performing category.

During the year, the Bank continued to 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 33.8 per cent of the Bank's total assets, compared to 24.5 per cent in the previous year. During the year the Bank made a conscious decision of liquidating the high yielding Iranian Government Bonds which were designated in IRR. The Bank now holds a good mix of Corporate bonds, Treasury bills & sukuks under its investments portfolio classified under the "Available for Sale" (AFS) category as per IFRS 39, to the extent of BD 36.5 million. 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 54.5 per cent, as compared to 57.1 per cent in the previous year. For the year ended 2011, the loans to customer deposit ratio including medium term loan facilities availed by the Bank, stood at 70.9 per cent, compared to 79.2 per cent in the previous year, to reflect better utilisations.

Customer Deposits grew by BD 9.1 million or 6.9 per cent to BD 140.8 million as at year end 2011 from BD 131.7 million at the end of 2010 with all segments of business showing growth with emphasis on generating core low cost deposits.

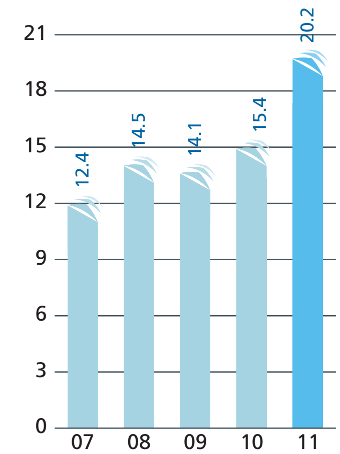
Futurebank increased its capital base by way of a rights issue to the extent of BD 8.1 million in the first quarter of 2011. This coupled with the lower net profit earned by the Bank during the year, saw its Return on Average Equity ratio rendering a decline as compared to the previous year. Consequently, the Return on Average Equity ratio stood at 9.1 per cent on a higher capital base for the full year, as compared to 11.3 per cent in the previous year 2010.

Equity before appropriation increased to BD 96.6 million at the end of 2011, up from BD 88.2 million at the end of the previous year. Equity to total assets accounted for 18.1 per cent of the total assets of the Bank, as compared to 16.8 per cent in the previous year.

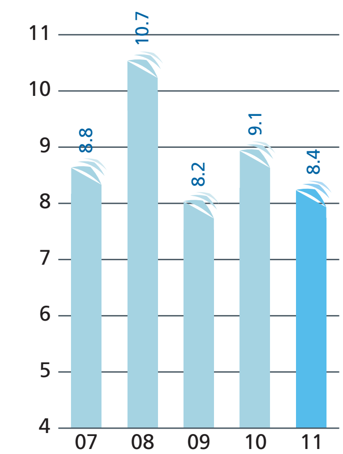
Taking stock of the prevailing conditions, Futurebank will strengthen its focus towards sectoral funding and has been proactively ensuring the maintenance of strong liquidity and capital positions to grow and expand both its business, as well as its customer base. Measures to ensure stringent adherence 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. Thus the prudent use of its capital and the judicious mix of its assets have resulted in the better utilisation of its capital with the Bank's capital adequacy ratio standing at 20.2 per cent during year end 2011, as compared to 25.7 per cent in the previous year. This ratio exceeds the minimum requirement of 12 per cent prescribed by the Central Bank of Bahrain (CBB) for banks operating within the Kingdom of Bahrain. The above ratio is based on the guidelines issued by the CBB, in line with the Basel Committee Standard for measuring risk weighted assets.

FINANCIAL REVIEW

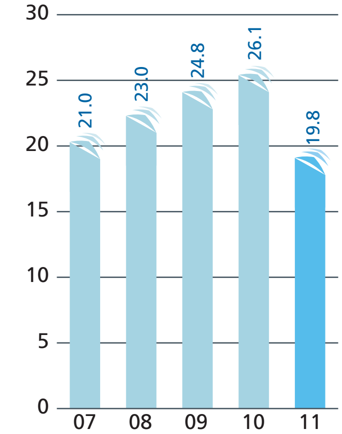
Total Income (BD millions)



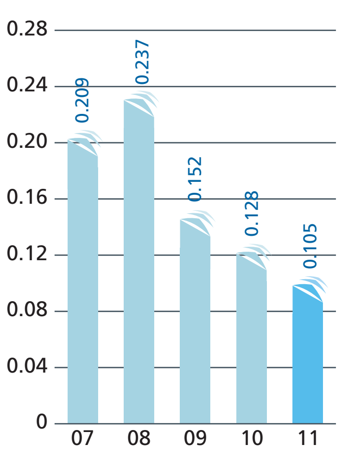
Net Profit (BD millions)



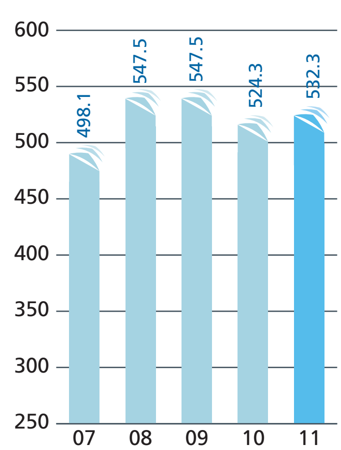
Cost / Income Ratio (Per cent)



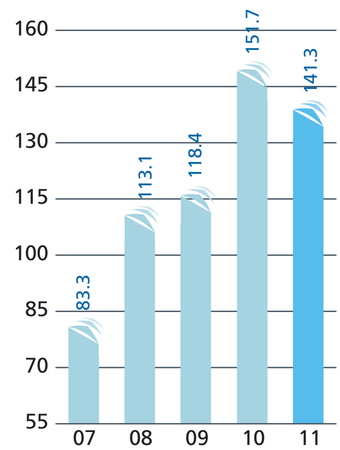
Earning per Share (BD / USD)



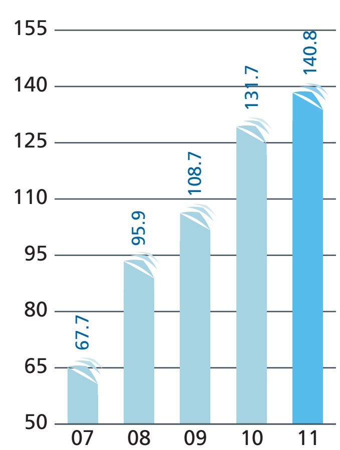
Total Assets (BD millions)



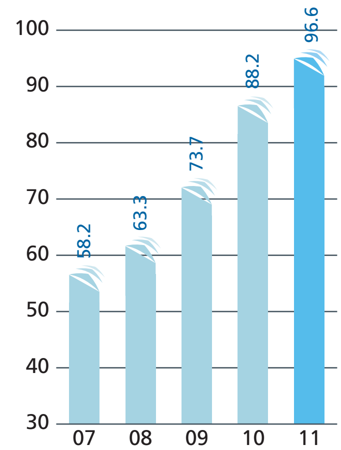
Loans and Advances (BD millions)



Customer Deposits (BD millions)



Shareholders' Equity (BD millions)



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FUTUREBANK B.S.C. (c)

Report on the Financial Statements

We have audited the accompanying financial statements of Future Bank B.S.C. (c), ("the Bank"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' 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, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 in 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 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Chairman is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

4th February 2012

Manama, Kingdom of Bahrain

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2011

	Note	2011 BD'000	2010 BD'000
Interest and similar income	5	32,309	24,704
Interest expense and similar charges	6	11,408	10,319
Net interest income		20,901	14,385
Net fees and commissions income	7	617	1,236
Net losses from foreign currencies		(1,395)	(326)
Gain on disposal of equipment		-	6
Other operating income		65	167
		(713)	1,083
OPERATING INCOME		20,188	15,468
Provision for loan losses - net	11	6,722	1,324
Impairment of goodwill	15	1,031	1,019
NET OPERATING INCOME		12,435	13,125
Staff expenses		2,224	2,382
Depreciation		363	259
Other operating expenses		1,414	1,403
OPERATING EXPENSES		4,001	4,044
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,434	9,081

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION At 31 December 2011

	Note	2011 BD'000	2010 BD'000
ASSETS			
Cash and balances with central banks	9	39,772	31,827
Due from banks	10	302,785	276,829
Loans and advances to customers	11	141,267	151,724
Non-trading investments	12	36,511	50,324
Other assets	13	2,777	5,704
Property and equipment	14	7,295	4,969
Goodwill	15	1,892	2,923
TOTAL ASSETS		532,299	524,300
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		231,643	239,494
Customers' deposits	16	140,769	131,653
Medium term borrowings	17	58,613	59,979
Other liabilities	18	4,662	4,996
Total liabilities		435,687	436,122
EQUITY			
Share capital	19	83,100	75,000
Statutory reserve	20	5,846	5,003
Retained earnings		7,666	8,175
Total equity		96,612	88,178
TOTAL LIABILITIES AND EQUITY		532,299	524,300

(Deputy Chairman)

(CEO and Managing Director)

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS Year ended 31 December 2011

	Note	2011 BD'000	2010 BD'000
OPERATING ACTIVITIES			
Profit for the year		8,434	9,081
Adjustments for non-cash items:			
Depreciation		363	259
Provision for loan losses - net	11	6,722	1,324
Gain on disposal of equipment		-	(6)
Impairment of goodwill	15	1,031	1,019
Operating profit before changes in operating assets and liabilities		16,550	11,677
Changes in operating assets and liabilities:			
Mandatory reserve deposit with Central Bank of Bahrain		(851)	(846)
Due from banks		18,139	4,483
Loans and advances to customers		3,735	(34,635)
Other assets		2,927	(290)
Due to banks		(7,851)	(73,326)
Customers' deposits		9,116	22,927
Other liabilities		(334)	1,538
Net cash from (used in) operating activities		41,431	(68,472)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(27,363)	(40,935)
Proceeds from maturity of non-trading investments		41,176	3,031
Purchase of property and equipment		(2,689)	(2,210)
Proceeds from disposal of equipment		-	12
Net cash from (used in) investing activities		11,124	(40,102)
FINANCING ACTIVITIES			
Proceeds from rights issue	19	8,100	18,450
Medium term borrowings	17	(1,366)	11,215
Dividend paid	21	(8,100)	(13,101)
Net cash (used in) from financing activities		(1,366)	16,564
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		51,189	(92,010)
Cash and cash equivalents at beginning of the year		198,563	290,573
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22	249,752	198,563

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2011

	Share capital BD'000	Statutory reserve BD'000	Retained earnings BD'000	Total BD'000
Balance at 31 December 2009	56,550	4,095	13,103	73,748
Proceeds from rights issue (note 19)	18,450	-	-	18,450
Dividend paid during the year for 2009 (note 21)	-	-	(13,101)	(13,101)
Total comprehensive income for the year	-	-	9,081	9,081
Transfer to statutory reserve (note 20)	-	908	(908)	-
Balance at 31 December 2010	75,000	5,003	8,175	88,178
Proceeds from rights issue (note 19)	8,100	-	-	8,100
Dividend paid during the year for 2010 (note 21)	-	-	(8,100)	(8,100)
Total comprehensive income for the year	-	-	8,434	8,434
Transfer to statutory reserve (note 20)	-	843	(843)	-
Balance at 31 December 2011	**83,100**	**5,846**	**7,666**	**96,612**

The attached notes 1 to 32 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

1 ACTIVITIES

Future Bank 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 P O Box 785, Manama, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 4th February 2012.

2 BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives.

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.

New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards (where applicable) when they become effective:

IAS 1 *Financial Statement Presentation*

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Banks financial position or performance.

IFRS 9 *Financial Instruments*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives.*

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

2 BASIS OF PREPARATION (continued)

New standards and amendments issued but not yet effective (continued)

IFRS 9 *Financial Instruments* (continued)

The IASB issued amendments to IFRS 9 that defer the mandatory effective date from 1 January 2013 to 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Bank will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 *Fair value measurement*

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Bank is currently assessing the full impact of this new standard.

New and amended standards and interpretations effective as of 1 January 2011

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 *Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

Improvements to IFRSs

In May 2010 the Board issued its third omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Bank.

- IFRS 7 Financial Instruments – Disclosures: The standard was amended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The amendment also clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements;
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Bank:

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

3 SIGNIFICANT ACCOUNTING JUDGEMENTS 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.

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

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 comprehensive income.

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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 comprehensive income.

Available-for-sale investments are initially recognised at fair value including any transaction costs. After initial recognition, available-for-sale investments are remeasured at fair value. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment provision. Unless unrealized gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, settled or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income for the period.

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 comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive 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 comprehensive income. The losses arising from impairment of such loans and advances are recognised in the statement of comprehensive income as 'Provision for loan losses - net'.

d) Derivatives

Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value of derivatives held for trading are included in the statement of comprehensive income.

e) Medium term borrowings

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 using the forward exchange rate at the statement of financial position date, with the resulting value discounted to present value.

Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for changes in its carrying amount as follows:

Impairment of financial assets held at amortised cost

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or Bank of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or Bank of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the issuer's credit rating), the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the statement of comprehensive income as provision for impairment on investment.

Where a loss has been recognised directly under shareholders equity, the cumulative net loss recognised in shareholders equity is transferred to the statement of comprehensive income when the asset is considered to be impaired.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the statement of comprehensive income.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 comprehensive 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 comprehensive 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) and deposits with banks with original maturities of less than ninety days.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 comprehensive income in 'Provision for loan losses - net'. The premium received is recognised in the statement of comprehensive 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

	2011 BD'000	2010 BD'000
Loans and advances to customers	23,438	19,877
Due from banks	4,900	1,611
Non-trading investments	3,971	3,216
	32,309	24,704

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2011 BD'000	2010 BD'000
Due to banks	6,252	5,762
Customers' deposits	3,939	3,851
Medium term borrowings	1,217	706
	11,408	10,319

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

7 NET FEES AND COMMISSIONS INCOME

	2011 BD'000	2010 BD'000
Fees and commissions income	632	1,288
Fees and commissions expense	(15)	(52)
	617	1,236

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified for the purpose of measurement under IAS 39 Financial Instruments: Recognition and Measurement as follows:

As at 31 December 2011	Available-for-sale BD'000	Held to maturity BD'000	Loans and receivables amortised cost BD'000	Total BD'000
Financial assets				
Balances with central banks	-	-	38,297	38,297
Due from banks	-	-	302,785	302,785
Loans and advances to customers	-	-	141,267	141,267
Non-trading investments	36,511	-	-	36,511
Other assets	-	-	2,595	2,595
	36,511	-	484,944	521,455
Financial liabilities				
Due to banks	-	-	231,643	231,643
Customers' deposits	-	-	140,769	140,769
Medium term borrowings	-	-	58,613	58,613
Other liabilities	-	-	4,662	4,662
	-	-	435,687	435,687

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2010	Available-for-sale BD'000	Held to maturity BD'000	Loans and receivables amortised cost BD'000	Total BD'000
Financial assets				
Balances with central banks	-	-	31,827	31,827
Due from banks	-	-	276,829	276,829
Loans and advances to customers	-	-	151,724	151,724
Non-trading investments	49,301	1,023	-	50,324
Other assets	-	-	5,574	5,574
	49,301	1,023	465,954	516,278
Financial liabilities				
Due to banks	-	-	239,494	239,494
Customers' deposits	-	-	131,653	131,653
Medium term borrowings	-	-	59,979	59,979
Other liabilities	-	-	4,996	4,996
	-	-	436,122	436,122

9 CASH AND BALANCES WITH CENTRAL BANKS

	2011 BD'000	2010 BD'000
Cash	1,475	1,113
Balances with the Central Bank of Bahrain:		
Current account	840	312
Mandatory reserve deposit	4,602	3,751
Time deposit	28,700	23,400
Current account with the Central Bank of Iran	4,155	3,251
	39,772	31,827

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

10 DUE FROM BANKS

	2011 BD'000	2010 BD'000
Placements	179,878	128,397
Bills discounted	122,907	148,432
	302,785	276,829

Placements include a Euro blocked deposit equivalent to BD 17.16 million (31 December 2010: BD 17.56 million) with the Bank's shareholder, Bank Saderat Iran ("BSI"), Paris. This deposit is, however, secured by a deposit of an equivalent amount placed with the Bank by BSI, Tehran.

11 LOANS AND ADVANCES TO CUSTOMERS

	2011 BD'000	2010 BD'000
Retail	14,267	14,134
Corporate	143,582	146,616
	157,849	160,750
Less: Provision for loan losses	(12,987)	(6,286)
Suspended interest	(3,595)	(2,740)
	141,267	151,724

The movements in provision for credit losses were as follows:

	2011			2010		
	Retail BD'000	Corporate BD'000	Total BD'000	Retail BD'000	Corporate BD'000	Total BD'000
At 1 January	1,022	5,264	6,286	596	4,414	5,010
Charge for the year	161	9,277	9,438	565	1,495	2,060
Recoveries	(167)	(2,549)	(2,716)	(93)	(643)	(736)
Net provision	(6)	6,728	6,722	472	852	1,324
Amounts written off	(21)	-	(21)	(46)	(2)	(48)
At 31 December	995	11,992	12,987	1,022	5,264	6,286
Specific provision	995	9,316	10,311	1,022	4,327	5,349
Collective provision	-	2,676	2,676	-	937	937
Total provision	995	11,992	12,987	1,022	5,264	6,286
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,238	28,453	30,691	2,559	19,400	21,959

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2011 amounts to BD 51.2 million (31 December 2010: BD 37.9 million). The collateral consists of cash, securities and properties. The Bank also obtains guarantee from banks and corporates.

12 NON-TRADING INVESTMENTS

	2011			2010		
Unquoted	Available-for-sale BD'000	Held to maturity BD'000	Total BD'000	Available-for-sale BD'000	Held to maturity BD'000	Total BD'000
Iranian Government bonds	-	-	-	13,859	1,023	14,882
Iranian Corporate bonds	23,201	-	23,201	19,993	-	19,993
Treasury bills	2,000	-	2,000	14,929	-	14,929
Sukuks	11,300	-	11,300	510	-	510
Equity	10	-	10	10	-	10
	36,511	-	36,511	49,301	1,023	50,324

The Iranian Corporate bonds are issued by Iranian companies and are denominated in Euro.

Treasury bills and Sukuks are issued by the Ministry of Finance of the Kingdom of Bahrain and are denominated in Bahraini Dinars.

The fair value of all non-trading investments approximates cost as all the investments are short-term in nature and are redeemable at face value.

13 OTHER ASSETS

	2011 BD'000	2010 BD'000
Interest receivable	2,310	5,261
Sundry debtors and prepayments	303	186
Other	164	257
	2,777	5,704

14 PROPERTY AND EQUIPMENT

Property and equipment includes the cost of freehold land in the Seef District in the Kingdom of Bahrain of BD 1.3 million (31 December 2010: BD 1.3 million) and capital work in progress of BD 4.1 million (31 December 2010: BD 2.2 million) relating to the construction of the Bank's new head office premises. The Bank's management performed an impairment review of the land by seeking an independent professional valuation as of 31 December 2011. Based on such review no indication of impairment was observed.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

15 GOODWILL

The goodwill had 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. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development. The discount rates used is pre-tax and reflect specific risks relating to the segment in which the CGU operates. The key assumptions used in the value in use calculation included a perpetuity growth rate of 0.5% (2010: 0.5%) and discount factor of 22.8% (2010: 20.8%).

As the recoverable amount of the CGU was lower than its net book value by BD 1.03 million (2010: BD 1.02 million), the management recognised the goodwill impairment for this amount through the statement of comprehensive income.

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.

The impairment charge recognised in the current year and previous year is a result of expectation of possible decrease in the activities of the CGU under the current political environment coupled with increasing inflation risk expectations of the segment in which the CGU operates. Management believes that a reasonably possible adverse change in these key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

The implications of possible adverse changes in the key assumptions are discussed below:

- growth rate - a possible reduction of 5% in the growth rate would result in further impairment of the goodwill by BD 11 thousand (2010: BD 22 thousand);
- country risk premium - a possible 5% increase in country risk premium would result in further impairment of the goodwill by BD 315 thousand (2010: BD 583 thousand).

16 CUSTOMERS' DEPOSITS

	2011 BD'000	2010 BD'000
Current and call accounts	16,680	22,596
Savings accounts	7,726	7,136
Term deposit accounts	116,363	101,921
	140,769	131,653

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

17 MEDIUM TERM BORROWINGS

	2011		2010	
	Interest rate	BD'000	Interest rate	BD'000
Bank Saderat Iran (Euro 30 million)				
(repayable in bullet in January 2014)	Libor + 25		Libor + 25	
	basis points	14,653	basis points	14,995
Bank Melli Iran (Euro 30 million)				
(repayable in bullet in January 2014)	Libor + 25		Libor + 25	
	basis points	14,653	basis points	14,995
Bank Melli Iran (Euro 30 million)				
(repayable in bullet in August 2014)	Libor + 81	14,653	Libor + 81	
	basis points		basis points	14,995
Bank Tejarat Iran (Euro 30 million)				
(repayable in bullet in January 2014)	Libor +125	14,654	Libor +125	
	basis points		basis points	14,994
		58,613		59,979

18 OTHER LIABILITIES

	2011 BD'000	2010 BD'000
Interest payable	1,283	1,560
Staff related accruals	765	741
Accounts payable	1,309	2,046
Other	1,305	649
	4,662	4,996

19 SHARECAPITAL

	2011 BD'000	2010 BD'000
Authorised:		
100 million (31 December 2010: 100 million) ordinary shares of BD 1 each	100,000	100,000
Issued and fully paid:		
83.1 million (31 December 2010: 75 million) ordinary shares of BD 1 each	83,100	75,000

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

19 SHARE CAPITAL (continued)

At the Bank's Extraordinary General meeting held on 10 April 2011, the Bank's shareholders resolved to increase the Bank's paid up share capital from BD 75,000 thousand to BD 83,100 thousand through a rights issue of 8,100 thousand shares of BD 1 each (2010: paid up share capital increased from BD 56,550 thousand to BD 75,000 thousand through a rights issue of 18,450 thousand shares of BD 1 each), which was fully subscribed by the shareholders.

20 STATUTORY RESERVE

As required by the 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.

21 DIVIDEND PAID AND PROPOSED

	2011 BD'000	2010 BD'000
Dividend paid during the year:		
Final dividend for 2010 - Bahraini Fils: 108 per share (for 2009 - Bahraini Fils: 232 per share)	8,100	13,101

Following the approval of the 2010 proposed dividend by the Bank's shareholders at the Annual General Meeting on 10 April 2011, the dividend was paid.

	2011 BD'000	2010 BD'000
Proposed dividend:		
Proposed cash dividend for 2011 - Nil (for 2010 - Bahraini Fils: 108 per share)	–	8,100

22 CASH AND CASH EQUIVALENTS

	2011 BD'000	2010 BD'000
Cash and balances with central banks excluding mandatory reserve deposit	35,170	28,076
Due from banks with an original maturity of less than ninety days	214,582	170,487
	249,752	198,563

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

23 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with shareholders, directors, senior management and their related entities in which these parties have control, joint control or significant influence in the ordinary course of business at normal commercial terms.

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

	2011 BD'000	2010 BD'000
Statement of financial position		
Shareholders and related parties		
Placements (included in due from banks) *	79,700	92,702
Loans and advances to shareholders (included in due from banks) *	31,155	90,998
Loans and advances to other related parties (included in loans and advances) **	3,650	6,442
Deposits from shareholders (included in due to banks) *	18,948	21,791
Medium term borrowings *	43,960	44,984
Directors and key management personnel		
Loans and advances	37	29
Deposits	126	265

	2011 BD'000	2010 BD'000
Statement of comprehensive income		
Shareholders and related parties		
Interest income from shareholders*	5,388	5,637
Interest income from other related parties**	302	442
Fees and commissions income from shareholders*	-	299
Fees and commissions income from other related parties **	19	59
Interest expense *	1,430	409

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

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

23 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The compensation for key management personnel, including executive directors, comprises the following:

	2011 BD'000	2010 BD'000
Salaries and other short term benefits	581	649
End of service benefits	19	26
	600	675

In 2011 Directors' sitting fees amounted to BD 38.5 thousand (2010: BD 38.5 thousand).

All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

24 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:

	2011 BD'000	2010 BD'000
Commitments on behalf of customers:		
Acceptances	-	191
Letters of credit	1,256	2,328
Guarantees	2,939	3,890
	4,195	6,409

Other Commitments:

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

	2011 BD'000	2010 BD'000
Within one year	185	247
One to five years	102	151
	287	398

As of 31 December 2011 the Bank has a capital commitment of BD 2.4 million (2010: BD 4.2 million) for the construction of the Bank's new head office.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

25 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:

	2011 BD'000	2010 BD'000
Capital base:		
Tier 1 capital	96,612	88,178
Goodwill	(1,892)	(2,923)
Total capital base (a)	94,720	85,255
Risk weighted assets (b)	469,631	332,230
Capital adequacy (a/b * 100)	20.2%	25.7%
Minimum requirement	12.0%	12.0%

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

26 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 2010. The objective of the risk charter is to define the board framework consisting of policies and procedures for the management of credit, operational, market and liquidity risks. It also defines the roles and responsibilities of various committees, such as board, executive committee, management committee, asset liability management committee (ALCO), 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.

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 the Bank meets various regulatory guidelines and undertakes continuous disclosure in line with the accounting and regulatory standards.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

26 RISK MANAGEMENT (continued)

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 the operational risk sub-committee and the credit monitoring and special asset management (SAM) sub-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 risks on a timely basis. 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

26 RISK MANAGEMENT (continued)

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 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. Threshold breaches, if any, are reported to the operational risk sub-committee for suitable action. The entire operational risk management process was also 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 and limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. These are also reported to the Board.

27 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.

	Gross maximum exposure 2011 BD'000	Gross maximum exposure 2010 BD'000
Balances with central banks	38,297	30,714
Due from banks	302,785	276,829
Loans and advances to customers	141,267	151,724
Non-trading investments	36,501	50,314
Other assets	2,595	5,574
Total on statement of financial position exposures	521,445	515,155
Commitments and contingent liabilities	4,195	6,409
Total credit risk exposure	525,640	521,564

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

27 CREDIT RISK (continued)

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

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

	2011			2010		
	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)	135,489	98,419	2,939	131,026	78,060	3,890
Iran and Middle East countries*	377,267	337,266	1,256	371,676	358,060	2,519
Europe	17,651	2	-	18,675	2	-
	530,407	435,687	4,195	521,377	436,122	6,409
Industry sector:						
Trading and manufacturing	48,375	1,131	1,590	47,637	7,729	2,778
Banks and financial institutions	394,308	291,353	3	364,118	304,912	3
Construction and real estate	47,299	3,075	1,396	64,914	283	2,688
Other	40,425	140,128	1,206	44,708	123,198	940
	530,407	435,687	4,195	521,377	436,122	6,409

* A substantial part of these exposures relate to Iran.

As of 31 December 2011, the five largest customers accounted for 23 % (2010: 23%) of the net loans and advances to customers.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

27 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 2011				
	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	38,297	-	-	-	38,297
Due from banks					
Placements	-	179,878	-	-	179,878
Loans and advances	-	122,907	-	-	122,907
Loans and advances to customers					
Retail	3,816	4,932	3,281	2,238	14,267
Corporate	10,326	66,869	37,934	28,453	143,582
Non-trading investments	36,501	-	-	-	36,501
	88,940	374,586	41,215	30,691	535,432

	31 December 2010				
	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	30,714	-	-	-	30,714
Due from banks					
Placements	-	128,397	-	-	128,397
Loans and advances	-	148,432	-	-	148,432
Loans and advances to customers					
Retail	893	7,066	3,616	2,559	14,134
Corporate	23,914	78,797	24,505	19,400	146,616
Non-trading investments	50,314	-	-	-	50,314
	105,835	362,692	28,121	21,959	518,607

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

27 CREDIT RISK (continued)

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

31 December 2011

	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	1,283	1,388	610	3,281
Corporate*	23,848	7,525	6,561	37,934
	25,131	8,913	7,171	41,215

* Subsequent to the year end, BD 16.593 million (2010: BD 1 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 overdues.

31 December 2010

	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	265	3,289	62	3,616
Corporate	15,657	8,848	-	24,505
	15,922	12,137	62	28,121

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

	2011 BD'000	2010 BD'000
Loans and advances to customers		
Retail	1,748	30
Corporate	20,734	15,422
Total renegotiated loans	22,482	15,452

28 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.

28.1 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 repricing 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 Banks statement of comprehensive income. The Bank's equity is not sensitive to changes in interest rates as at 31 December 2011 and 2010.

	31 December 2011		31 December 2010	
	Increase in basis points	Impact on net interest income BD'000	Increase in basis points	Impact on net interest income BD'000
US Dollars	100	93	100	23
Bahraini Dinars	100	160	100	249
Euro	100	(150)	100	(211)
Iranian Rials	100	6	100	256

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

28.2 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 2011 and 2010. The analysis calculates the effect of a reasonably possible movement of the currency exchange rate against the Bahrain Dinar with all other variables held constant on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	31 December 2011		31 December 2010	
Currency	Change in currency rate in %	Effect on profit 2011 BD'000	Change in currency rate in %	Effect on profit 2010 BD'000
Euro	10	166	10	780
Swiss Francs	10	(2)	10	(1)
Iranian Rials	20	123	20	5,427

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

29 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 consist 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 2011 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	Total up 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	35,170	-	-	-	35,170	-	-	4,602	39,772
Due from banks	167,645	64,099	35,681	35,360	302,785	-	-	-	302,785
Loans and advances to customers	10,944	11,764	9,493	30,063	62,264	37,081	41,922	-	141,267
Non-trading investments	-	-	-	36,501	36,501	-	-	10	36,511
Other assets	1,455	399	238	344	2,436	138	203	-	2,777
Property and equipment	-	-	-	-	-	-	-	7,295	7,295
Goodwill	-	-	-	-	-	-	-	1,892	1,892
Total assets	215,214	76,262	45,412	102,268	439,156	37,219	42,125	13,799	532,299
Liabilities									
Due to banks	4,937	175,952	33,529	17,225	231,643	-	-	-	231,643
Customers' deposits	10,782	10,395	-	-	21,177	119,591	-	-	140,768
Medium term borrowings	-	-	-	-	-	58,613	-	-	58,613
Other liabilities	3,336	740	151	116	4,343	320	-	-	4,663
Total liabilities	19,055	187,087	33,680	17,341	257,163	178,524	-	-	435,687
Net liquidity gap	196,159	(110,825)	11,732	84,927	181,993	(141,305)	42,125	13,799	
Cumulative liquidity gap	196,159	85,334	97,066	181,993	181,993	40,688	82,813	96,612	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

29 LIQUIDITY RISK (continued)

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2010 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	Total up 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	28,076	-	-	-	28,076	-	-	3,751	31,827
Due from banks	123,520	64,529	42,169	46,611	276,829	-	-	-	276,829
Loans and advances to customers	8,888	6,917	7,719	41,165	64,689	57,120	29,915	-	151,724
Non-trading investments	-	-	-	50,314	50,314	-	-	10	50,324
Other assets	2,053	921	643	1,132	4,749	646	309	-	5,704
Property and equipment	-	-	-	-	-	-	-	4,969	4,969
Goodwill	-	-	-	-	-	-	-	2,923	2,923
Total assets	162,537	72,367	50,531	139,222	424,657	57,766	30,224	11,653	524,300
Liabilities									
Due to banks	42,114	118,226	12,522	66,632	239,494	-	-	-	239,494
Customers' deposits	10,260	9,904	-	-	20,164	111,489	-	-	131,653
Medium term borrowings	-	-	-	-	-	14,995	44,984	-	59,979
Other liabilities	3,496	723	87	316	4,622	188	186	-	4,996
Total liabilities	55,870	128,853	12,609	66,948	264,280	126,672	45,170	-	436,122
Net liquidity gap	106,667	(56,486)	37,922	72,274	160,377	(68,906)	(14,946)	11,653	
Cumulative liquidity gap	106,667	50,181	88,103	160,377	160,377	91,471	76,525	88,178	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

29 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 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 2011						
Due to banks	4,952	177,212	33,814	17,370	-	233,348
Customers' deposits	25,446	78,909	14,149	19,680	4,723	142,907
Medium term borrowings	-	737	737	1,474	64,737	67,685
	30,398	256,858	48,700	38,524	69,460	443,940
Contingencies and commitments	785	1,621	237	382	1,170	4,195
Total undiscounted financial liabilities	31,183	258,479	48,937	38,906	70,630	448,135
Financial liabilities						
As at 31 December 2010						
Due to banks	42,303	119,469	13,003	67,265	-	242,040
Customers' deposits	32,793	72,274	12,182	13,098	3,059	133,406
Medium term borrowings	-	754	754	1,509	66,307	69,324
	75,096	192,497	25,939	81,872	69,366	444,770
Contingencies and commitments	1,273	2,406	640	821	1,269	6,409
Total undiscounted financial liabilities	76,369	194,903	26,579	82,693	70,635	451,179

30 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.

31 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 self assessment and 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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2011

32 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.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2011

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 credit worthiness 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 Future Bank was formally set up in September 2005. Within a span of a little more than six years the Bank has managed to cover 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, liquidity and Operational risks on an ongoing basis. There are three sub committees to specifically monitor Operational Risk Credit Risk (Performing loans) SAM (Special Assets Management or Non Performing Loans) and respectively. These sub committees report to the RMC. 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 had submitted a time bound action plan to the CBB. The RMD followed up on this action plan and all gaps pointed out in the report since stand closed. During 2010 the organization structure was modified in order to elevate the role of the Risk Management in the Credit approval process. In addition the credit analysis function was shifted from front office to Credit Department in order to ensure independence of the appraisal function.

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

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 in place 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. The Bank has adopted a RAROC model. 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 proposal is marketed by front office and processed by Credit Department 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 collateralised 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.

The Bank follows an elaborate procedure for approval of connected party transactions. All connected party limits are subject to the same ceilings as proposed by CBB. On taking office, board members disclose to the Bank all interests and relationships which could or might be seen to affect his ability to perform his duties as a Board member. The Compliance department ensures that the directors, on an annual basis, disclose and update information on his actual and potential conflicts of interest and maintains such records. Further, the directors inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions contained in our Conflict of interest policy. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Limits are also in place to monitor various credit concentrations by counterpart / group, country, sector, ratings, products 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 and is in charge of activating the customer limits. The RMD ensures that 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 on daily basis in case of shares and in case of Title Deeds with a minimum frequency of one year. 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 higher of 1% of the performing portfolio or the probability of default (PD) of external rating agencies which have been 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 Future Bank 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. For the purpose of Interest Rate Risk in the Banking book Loan prepayments are not considered unless the borrower has notified the bank about his intention to prepay. Similarly the non interest bearing deposits such as saving / current account are classified under Non interest sensitive bucket. The Bank has also adopted a liquidity contingency plan.

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.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2011

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 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 Euro Bonds issued by Iran government owned corporations. The FX risk relating to these bonds is already covered. 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 (68 %) is secured by real estate mortgage.

Bank is indirectly exposed to market risk on Iranian equities as major portion of its offshore credit portfolio (46%) 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. During 2010 the SOPs were re engineered in order to reflect the changes required through implementation of a new Core Banking module. Based on the revised SOPs a RCSA review was conducted during 2011.

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 functional 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.

No penalty was paid by the bank to the regulatory authorities during the year 2011 pertaining to the above period.

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 as 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.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2011

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 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.

The bank is required to appropriate 10% of its annual net profit to the statutory reserve, not exceeding a ceiling of 50% of its share capital. The bank is also required to take the prior approval of the CBB for distribution of dividend. Except for this there are no restrictions on the transfer of funds.

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 half yearly revaluation of security based on 3 independent valuations and the NPV is based on 4 year discounting of the lowest value in order to ensure that all provisions are made on a conservative basis. The Bank has adopted a policy of minimum 15% provision on all NPAs irrespective of the availability of collaterals or cash flows. In addition 100% provision is made in respect of any NPA with gross exposure up to BD 100,000. The Bank also follows a cooling period of 6 months satisfactory performance before upgrading any restructured asset to performing category.

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. The CIP so arrived at is subject to a minimum amount of 1% of performing loans portfolio i.e. higher of the two methodologies.

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 2011. 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. Bank has already stressed its projected 3 year balance sheet based on 9 stress scenarios and arrived at the regulatory and internal capital ratios. The results were in principle approved by the Board and forwarded also to CBB.

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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PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

DISCLOSURE -1 CAPITAL STRUCTURE

	BD '000	
NET AVAILABLE CAPITAL	Tier 1	Tier 2
Paid-up share capital	83,100	-
Reserves:		
Statutory reserve	5,003	-
Retained earnings brought forward	75	-
Less : Goodwill	(1,892)	-
Current profits	-	8,434
NET AVAILABLE CAPITAL	86,286	8,434
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		94,720

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

	BD '000	BD '000
	Risk Weighted Assets*	Capital Requirement
Claims on sovereign	4,144	497
Claims on public sector entities	6,748	810
Claims on banks	297,474	35,697
Claims on corporate	62,892	7,547
Regulatory retail portfolios	66	8
Mortgage	46,641	5,597
Past due exposure	11,589	1,391
Equity investments	15	2
Holding real estate	5,447	653
Other assets	4,625	555
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	439,641	52,757
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	27,571	3,309
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)**	2,419	290
TOTAL CAPITAL REQUIREMENT	469,631	56,356

* 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 2011

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

	BD '000	BD '000
	Risk Weighted Assets	Capital Requirement
Maximum market risk	19,965	2,396
Minimum market risk	1,799	216

DISCLOSURE - 2 - B. CAPITAL ADEQUACY RATIOS

Tier 1	Capital Adequacy Ratio (Tier 1 capital / risk weighted exposures)	18.37%
Total	Capital Adequacy Ratio (Total capital / risk weighted exposures)	20.17%

DISCLOSURE - 3 GROSS CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

	BD '000	
	As at 31 Dec 2011	Average monthly balance
Balances with central banks	38,297	28,162
Due from banks	302,785	266,684
Loans and advances to customers	141,267	165,094
Non-trading investments	36,501	47,480
Interest receivable and other assets	2,595	4,152
TOTAL FUNDED EXPOSURES	521,445	511,572
Contingent liabilities	4,195	3,938
Undrawn loan commitments	20,537	17,375
TOTAL UNFUNDED EXPOSURES	24,732	21,313
TOTAL CREDIT RISK EXPOSURE	546,177	532,885

The Bank has calculated the average monthly balance based on the month end balances for the year ended 31 December 2011.

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

DISCLOSURE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT RISK EXPOSURES

	BD '000			
	GCC countries	Iran and Middle East Countries	Europe	Total
Balances with central banks	34,142	4,155	-	38,297
Due from banks	48	285,086	17,651	302,785
Loans and advances	100,298	40,969	-	141,267
Non-trading investments	13,300	23,201	-	36,501
Interest receivable and other assets	1,128	1,467	-	2,595
TOTAL FUNDED EXPOSURES	148,916	354,878	17,651	521,445
Contingent liabilities	4,195	-	-	4,195
Undrawn loan commitments	20,537	-	-	20,537
TOTAL UNFUNDED EXPOSURES	24,732	-	-	24,732
TOTAL CREDIT RISK EXPOSURE	173,648	354,878	17,651	546,177

DISCLOSURE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT RISK EXPOSURES

	BD '000		
	Funded	Unfunded	Total
Manufacturing	23,565	-	23,565
Construction	12,502	1,882	14,384
Financial	385,346	-	385,346
Trade	24,811	6,048	30,859
Personal / consumer finance	10,213	4,297	14,510
Commercial real estate financing	32,931	8,964	41,895
Government	5,580	-	5,580
Transport	15,558	204	15,762
Other	10,939	3,337	14,276
TOTAL CREDIT RISK EXPOSURE	521,445	24,732	546,177

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

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 2011 are as follows:

	BD '000
Shareholders and related parties	
Placements (included in due from banks) *	79,700
Loans and advances to shareholders (included in due from banks) *	31,155
Loans and advances to other related parties (included in loans and advances) **	3,650
Deposits from shareholders (included in due to banks) *	18,948
Medium term borrowings *	43,960
Directors and key management personnel	
Loans and advances	37
Deposits	126

	BD '000
Income statement	
Shareholders and related parties	
Interest income from shareholders*	5,388
Interest income from other related parties**	302
Fees and commissions income from shareholders*	-
Fees and commissions income from other related parties **	19
Interest expense *	1,430

* 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	581
End of service benefits	19
	600

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

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

Total credit exposures in excess of 15% individual obligor limit (BD '000)	294,657

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	33,695	-	-	4,602	38,297
Due from banks	167,645	64,099	71,041	-	302,785
Loans and advances to customers	33,909	9,212	19,143	79,003	141,267
Non-trading investments	36,501	-	-	-	36,501
Interest receivable and other assets	1,298	1,297	-	-	2,595
TOTAL FUNDED EXPOSURES	273,048	74,608	90,184	83,605	521,445
Contingent liabilities	2,178	229	620	1,168	4,195
Undrawn loan commitments	707	2,569	17,084	177	20,537
TOTAL UNFUNDED EXPOSURES	2,885	2,798	17,704	1,345	24,732
TOTAL	275,933	77,406	107,888	84,950	546,177

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 loans	Specific provision	Recoveries during the period	Written off during the period	Collective impairment provision*
Manufacturing	7,580	1,775	203	-	125
Construction	10,989	3,864	50	-	15
Finance	-	-	-	-	45
Trade	1,340	568	101	-	138
Personal / consumer finance	970	164	58	21	80
Commercial real estate financing	7,276	2,597	18	-	1,585
Transport	1,036	769	-	-	363
Other	1,500	574	93	-	325
TOTAL	30,691	10,311	523	21	2,676

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

*The collective impairment provision does not relate to the impaired loans.

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

DISCLOSURE - 10 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS

	BD '000		
	GCC countries	Iran and Middle East countries	Total
Specific impairment provision	8,536	1,775	10,311
Collective impairment provision	2,579	97	2,676
TOTAL	11,115	1,872	12,987

DISCLOSURE - 11 MOVEMENT IN PROVISION/INTEREST IN SUSPENSE FOR LOANS AND ADVANCES

	BD '000						
	Retail			Corporate			
	Specific	Collective	Total retail provision	Specific	Collective	Total corporate provision	Total
At 1 January 2011	1,433	-	1,433	6,656	937	7,593	9,026
Charge for the period	680	-	680	6,733	3,932	10,665	11,345
Recoveries	(276)	-	(276)	(1,291)	(2,193)	(3,484)	(3,760)
Net provision	404	-	404	5,442	1,739	7,181	7,585
Amounts written off	(29)	-	(29)	-	-	-	(29)
At 31 December 2011	1,808	-	1,808	12,098	2,676	14,774	16,582

The provision relates entirely to exposures to non-banks.

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

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	6,188	14,092	2,831	23,111	75%
Iran and Middle East countries	5,265	1,282	1,033	7,580	25%
TOTAL	11,453	15,374	3,864	30,691	100%
	37%	50%	13%	100%	

ii) By Industry Sector

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
Manufacturing	5,265	1,282	1,033	7,580	25%
Construction	730	10,205	54	10,989	36%
Trade	196	576	568	1,340	4%
Personal / consumer finance	-	75	895	970	3%
Commercial real estate financing	5,262	1,392	622	7,276	24%
Transport	-	753	283	1,036	3%
Other	-	1,091	409	1,500	5%
TOTAL	11,453	15,374	3,864	30,691	100%
	37%	50%	13%	100%	

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

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	25,131	2,049	7,171	34,351	83%
Iran and Middle East countries	-	6,864	-	6,864	17%
TOTAL	25,131	8,913	7,171	41,215	100%
	61%	22%	17%	100%	

ii) By Industry Sector

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
Manufacturing	9,962	-	-	9,962	24%
Construction	4,970	-	-	4,970	12%
Finance	-	634	-	634	2%
Trade	3,198	357	-	3,555	9%
Personal / consumer finance	15	887	-	902	2%
Commercial real estate financing	6,342	304	6,561	13,207	32%
Transport	-	6,231	-	6,231	15%
Other	644	500	610	1,754	4%
TOTAL	25,131	8,913	7,171	41,215	100%
	61%	22%	17%	100%	

DISCLOSURE - 14 RESTRUCTURED CREDIT FACILITIES

	BD '000
Balance of restructured credit facilities at 1 January 2011	24,421
Amount of loans restructured during the period	24,392
Restructured credit facilities repaid / settled	(18,838)
Balance of restructured credit facilities at 31 December 2011	29,975

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.

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

DISCLOSURE - 15 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

	BD '000	
	Gross exposure	Eligible CRM
Cash	1,475	-
Claims on sovereign	62,295	-
Claims on public sector entities	24,215	17,467
Claims on banks	297,742	-
Claims on corporate	79,662	16,770
Regulatory retail portfolio	128	40
Equity investments	10	-
Mortgage	51,839	-
Past due exposure	16,813	5,449
Holding real estate	5,447	-
Other assets	4,625	-
TOTAL	544,251	39,726

DISCLOSURE - 16 INTEREST RATE RISK

	BD '000				
	Less than three months	Three months to one year	Over one year	Non-interest sensitive	Total
ASSETS					
Cash and balances with central banks	28,700	-	-	11,072	39,772
Due from banks	212,920	70,465	-	19,400	302,785
Loans and advances to customers	63,661	25,573	37,924	14,109	141,267
Non-trading investments	20,851	15,650	-	10	36,511
	326,132	111,688	37,924	44,591	520,335
LIABILITIES					
Due to banks	180,889	50,754	-	-	231,643
Medium term borrowings	58,613	-	-	-	58,613
Customers' deposits	78,975	33,164	4,224	24,406	140,769
	318,477	83,918	4,224	24,406	431,025
Total interest sensitivity gap	7,655	27,770	33,700	20,185	
Cumulative interest sensitivity gap	7,655	35,425	69,125		

PILLAR III DISCLOSURES - BASEL II for the year ended 31 December 2011

DISCLOSURE - 17 SENSITIVITY ANALYSIS - INTEREST RATE RISK

	BD '000	
	Increase in basis points	Impact on net interest income
United States Dollar	200	186
Bahraini Dinar	200	319
Euro	200	(300)
Iranian Rials	200	12

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.