LDD 17-02-'10 10:56

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

Commercial registration	:	44136 (registered with Central Bank of Bahrain as a Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour PO Box 10006, Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Dr. Esam Yousif A. Janahi, *Chairman* Hamad A Aziz Al-Shaya, *Vice Chairman* Abdul Latif Abdullah Al-Meer Adel Dawood Al-Ohali Samir Yacoub Al-Nefaysi (upto October 2009) Yousuf Mohammed Khayat Dr. Abdul Aziz Al – Hinai (w.e.f.18 February 2009) Anthony Travis (w.e.f. 18 February 2009) Mosabah Saif Al Mutairy (w.e.f.18 February 2009) Abdullah Ali Al Hamli (w.e.f.18 February 2009) Mohammad Ebrahim Mohammed (w.e.f.18 February 2009) Bader Nasser Al Subaei (w.e.f.18 February 2009)
Acting Chief Executive Officer	:	Edward Noel Pretty
Company Secretary	:	Dr. Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009

CONTENTS **Page**

Chairman's report	1-3
Independent auditors' report to the shareholders	4-5
Consolidated financial statements	
Consolidated statement of financial position	6
Consolidated income statement	7
Consolidated statement of comprehensive income	8
Consolidated statement of changes in equity	9-10
Consolidated statement of cash flows	11
Consolidated statement of changes in restricted investment accounts	12-13
Consolidated statement of sources and uses of charity and zakah fund	14
Notes to the consolidated financial statements	15-71

CHAIRMAN'S REPORT
for the year ended 31 December 2009

IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL, PRAYERS AND PEACE BE UPON THE LAST APOSTLE AND MESSENGER, OUR PROPHERT MOHAMMED

Dear Shareholders

On behalf of the Board of Directors, it is my privilege to present the financial statements of Gulf Finance House (GFH) for the year ended 31st December 2009.

2009 was an exceptionally difficult year for all financial institutions around the world including GFH. Gradually, the full affects of the global economic crisis reached the region, hampering liquidity and equity markets and slowing down the infrastructure and real estate industries significantly.

As an Islamic financial institution, GFH was in a better position than its conventional counterparts as Shariah dictated all investments have to be asset backed and prevented engaging in what turned to be the toxic assets that caused considerable damage to financial institutions worldwide. Nonetheless, that is not to say Shariah compliant banks were immune from the effects of the crisis. Investor appetite was significantly diminished and continues to be a problem triggering an unprecedented liquidity squeeze that called for the tightening of company budgets and expenses hindering the launch of a new products and projects. Furthermore, the infrastructure and real estate sectors which have grown so rapidly over the best part of the decade suffered one of the biggest slowdowns the region has experienced leading to continued revaluation of assets.

At Gulf Finance House, the Board and executive management believed that it was not the best time to proceed with exits and initiate projects in order to secure more value for our clients. The best exits for our clients could be realized if the Bank waited for the right time and opportunity. The Bank significantly reduced its deal flow for the same reason with placement becoming ever more challenging. Instead the Board and management felt that is was necessary to adapt to the changing economic environment and position the Bank for growth as the market recovers.

As a consequence, GFH embarked on an aggressive capital and liquidity management program that included a rights issue and certain asset sales.

GFH executed the region's largest and most successful non - government capital raise through an equity issue throughout 2009, raising US$300m in the process. The success of this exercise underlined the overwhelming support shown by the Bank's shareholders and the confidence they had in the Bank's management and new business model. Using the pioneering approach for which GFH is known for, the Bank structured a US$100m convertible murabaha, the first of its kind which it placed with Deutsche Bank. To place convertible murabaha with an institution of such global repute and presence is indicative of the positive sentiment shared by the market towards GFH and their recognition in the Bank's ability to continue with what it knows best: wealth creation. The Bank raised further funds through the partial sale (10%) of its stake in Qinvest which secured an additional US$50m and is aiming to follow that up with further non – core asset sales in 2010.

CHAIRMAN'S REPORT
for the year ended 31 December 2009 *(continued)*

Like all institutions, GFH continually reviews the value of the assets on its balance sheet and as a result the Board and management decided to clear its balance sheet by booking non – cash provisions that amounted to US$656m, on proprietary assets. The non – cash charge in assets is strictly only on GFH's books. As a result of these provisions, the Bank made a net loss of US$ 728 million in 2009 compared to US$292 million profit in 2008.

GFH was one of the first banks in the region to realize that change and action was necessary to adapt to the volatile conditions and prepare itself for a new era of growth in the year ahead.

Going forward into 2010 the Bank is taking bold steps to rein in its expenses, reduce its costs base and spread out its obligations. The final element of the initiative is to shore up its balance sheet and place the Bank in a healthier and leaner position going into 2010. The harsh realities of the crisis, especially with the last fallout in Dubai towards the end of 2009 necessitate this decisive action.

The Bank is also focused on understanding the needs of its investors. The Bank has conducted an extensive survey with its clients to determine what are their expectations and demands and the Bank has aligned their deal pipeline accordingly. Going into 2010, the Bank will continue to focus on four key business elements; grow its revenue (through launching new attractive products), reducing costs, improving its liquidity position and securing good exits for its investors. As mentioned earlier, GFH expect to raise funds through the sale of further non – core assets, under which the terms of these transactions were being negotiated whilst this letter was being written.

The Bank has begun to launch a diversified suite of attractive investment opportunities for its clients that are structured to generate sustained and periodical income revenue streams. GFH has been looking at opportunities in the energy, travel and logistics industries, equity markets, and is in the process of establishing Islamic financial institutions throughout the MENA region.

Despite acknowledging that 2010 will be another challenging year for the banking industry, with these deals, the Board and GFH management has strong reason to believe that the Bank's prospects are positive.

As part of the Bank's restructuring plan, I am pleased to announce the appointment of Ted Pretty as Chief Executive Officer of GFH. Mr. Pretty joins us from Macquarie Capital where he served as Executive Director. His background in investment banking and his Board level and senior executive experience ensure he is ideally qualified for this position. Even at this early stage, Ted has demonstrated real leadership qualities in the Bank and the Board is confident that under his stewardship GFH is well placed to return to profitability and maximize the prosperity of its shareholders and clients. On behalf of the Board, I wish him and his team all the luck and God willing we expect to see a resurgence in our financial performance during 2010.

CHAIRMAN'S REPORT
for the year ended 31 December 2009 *(continued)*

Finally I would like to extend my gratitude to the shareholders for placing their faith and support in the Board and GFH's management throughout 2009. Their loyalty has been instrumental to the Bank's successful capital and liquidity management program. I would also like to highlight the Bank's appreciation to all its investors and clients for their consideration; the Bank recognizes that a strong relationship and dialogue with its clients is essential to the success of its activities. Accordingly it has taken significant steps to improve its communications and transparency with them. Special thanks also goes out to the governments of all the countries in which we operate in for their continued support and confidence in the Bank and for entrusting us to contribute to the socio – economic development of their countries. A special mention needs to also be made towards the Central Bank of Bahrain for their understanding and provision of guidance and advice to see the Bank through these difficult times. GFH is an active and leading member of Bahrain's financial and business community and will continue its efforts to strengthen the Kingdom's position as the financial hub of the region. Finally I would like to thank the Bank's management and all their staff for their united efforts and initiatives to adapt to the conditions and propel GFH into a new era of growth, wishing them all the best in the year ahead.

Best regards,



Esam Y. Janahi

Chairman

14 February 2010

KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
GULF FINANCE HOUSE BSC
Manama, Kingdom of Bahrain

14 February 2010

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gulf Finance House B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Board of Directors is also responsible for the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent auditors' report to the shareholders (continued)
14 February 2010

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of the results of its operations, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of charity and zakah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 (b) in the consolidated financial statements which discusses material uncertainties relating to the Group's liquidity needs and regulatory capital adequacy, which, may cast doubt about the appropriateness of the going concern assumption used in the preparation of the consolidated financial statements. The management's plans to deal with these issues are set out in notes 40 (b) and 41 in the consolidated financial statements.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009 US$ 000's

	Note	2009	2008
ASSETS			
Cash and bank balances	4	10,174	13,863
Placements with financial and other institutions	5	454,966	1,275,675
Financing receivables	6	29,173	69,189
Assets held-for-sale	7	-	611,996
Investment in associates	8	376,424	409,779
Investment securities	9	349,399	448,137
Receivable from investment banking services	10	85,270	222,343
Other assets	11	336,930	434,065
Total assets		**1,642,336**	3,485,047
LIABILITIES			
Investors' funds	14	246,193	538,784
Placements from financial and other institutions	15	210,842	937,538
Financing liabilities	16	652,520	634,895
Liabilities directly associated with assets held-for-sale	7	-	317,186
Other liabilities	17	96,584	87,826
Total liabilities		**1,206,139**	2,516,229
Unrestricted investment accounts	18	**2,875**	1,945
EQUITY			
Share capital	19	604,079	262,813
Treasury shares		(52,371)	(17,364)
Share premium		202,316	180,382
Statutory reserve		106,700	106,700
(Accumulated losses) / retained earnings		(432,677)	409,702
Investments fair value reserve		975	1,132
Other reserves		4,300	23,508
Total equity (page 9)		**433,322**	966,873
Total liabilities, unrestricted investment accounts and equity		**1,642,336**	3,485,047
Off-balance sheet items			
Restricted investment accounts (page 12)		**50,042**	74,222

The consolidated financial statements were approved by the Board of Directors on 14 February 2010 and signed on its behalf by:

Esam Yousif A. Janahi
Chairman

Hamad A. Aziz Al-Shaya
Vice-Chairman

Edward Noel Pretty
Acting Chief Executive Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009 US$ 000's

	Note	2009	2008
Income from investment banking services		48,980	453,191
Placement, arrangement and management fees		2,580	33,233
Income from placements with financial and other institutions		3,752	29,555
Income from financing		1,513	1,533
(Loss) / income from investment in associates	21	(7,288)	94,968
(Loss) / income from investment securities	22	(4,027)	1,830
Other income, net		16,665	3,276
Total income		**62,175**	617,586
Staff cost	23	29,381	134,542
Investment advisory expenses		26,571	48,524
Finance cost	24	39,578	63,507
Other expenses		39,426	39,416
Total expenses		**134,956**	285,989
(Loss) / profit before provision for impairment		**(72,781)**	331,597
Provision for impairment	25	(655,598)	(39,712)
(Loss) / profit for the year		**(728,379)**	291,885
Earnings per share (US cents)			
Basic and diluted earnings per share	30	**(68.41)**	29.08

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009 US$ 000's

	2009	2008
(Loss) / profit for the year	**(728,379)**	291,885
Other comprehensive income		
Changes in fair value of available-for-sale investments	(157)	(1,667)
Total comprehensive income for the year	**(728,536)**	290,218

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

US$ 000's

2009	Share capital	Treasury shares	Share premium	Statutory reserve	Accumulated losses	Investments fair value reserve	Other reserves (note 20)	Total equity
Balance at 1 January 2009	262,813	(17,364)	180,382	106,700	409,702	1,132	23,508	966,873
Loss for the year	-	-	-	-	(728,379)	-	-	**(728,379)**
Changes in fair value of available-for-sale investments	-	-	-	-	-	(157)	-	**(157)**
Total comprehensive income for the year (page 8)	-	-	-	-	**(728,379)**	**(157)**	-	**(728,536)**
Increase in share capital (note 19)	262,651	-	39,795	-	-	-	-	**302,446**
Issue of bonus shares (note 19)	52,562	-	-	-	(52,562)	-	-	-
Share issue expenses	-	-	(21,808)	-	-	-	-	**(21,808)**
Equity component of convertible murabaha (note 16)	-	-	-	-	-	-	1,266	**1,266**
Convertible options exercised (note 16)	26,053	-	3,947	-	-	-	-	**30,000**
Share grants vesting expense, net of forfeitures (note 26)	-	-	-	-	-	-	(20,474)	**(20,474)**
Dividend declared for 2008	-	-	-	-	(52,563)	-	-	**(52,563)**
Charity contribution declared for 2008	-	-	-	-	(3,000)	-	-	**(3,000)**
Board remuneration declared for 2008	-	-	-	-	(3,000)	-	-	**(3,000)**
Zakah contribution declared for 2008	-	-	-	-	(2,875)	-	-	**(2,875)**
Purchase of treasury shares	-	(35,007)	-	-	-	-	-	**(35,007)**
Balance at 31 December 2009	**604,479**	**(52,371)**	**202,316**	**106,700**	**(432,677)**	**975**	**4,300**	**433,322**

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009 *(continued)*

US$ 000's

2008	Share capital	Treasury shares	Share premium	Statutory reserve	Retained earnings	Investments fair value reserve	Other reserves (note 20)	Total equity
Balance at 1 January 2008	238,921	(8,926)	180,382	83,529	382,799	2,799	-	879,504
Profit for the year	-	-	-	-	291,885	-	-	291,885
Changes in fair value of available-for-sale investments	-	-	-	-	-	(1,667)	-	(1,667)
Total comprehensive income for the year (page 8)	-	-	-	-	291,885	(1,667)	-	290,218
Issue of bonus shares	23,892	-	-	-	(23,892)	-	-	-
Share grants vesting expense (note 27)	-	-	-	-	-	-	23,508	23,508
Dividend declared for 2007	-	-	-	-	(203,083)	-	-	(203,083)
Charity contribution declared for 2007	-	-	-	-	(3,000)	-	-	(3,000)
Board remuneration declared for 2007	-	-	-	-	(5,000)	-	-	(5,000)
Zakah contribution declared for 2007	-	-	-	-	(281)	-	-	(281)
Loss on sale of treasury shares	-	-	-	(6,555)	-	-	-	(6,555)
Purchase of treasury shares	-	(24,300)	-	-	-	-	-	(24,300)
Sale of treasury shares	-	15,862	-	-	-	-	-	15,862
Transfer to statutory reserve	-	-	-	29,726	(29,726)	-	-	-
Balance at 31 December 2008	262,813	(17,364)	180,382	106,700	409,702	1,132	23,508	966,873

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2009 US$ 000's

	2009	2008
OPERATING ACTIVITIES		
Income from investment banking services received	102,462	281,785
Placements with / received from financial and other institutions	(867,451)	586,625
Cash receipts from 'water park' operations	5,897	5,980
Financing, net	(12,121)	11,504
Financing of projects, net	(1,021)	(91,368)
Investors' funds, net	(292,799)	391,416
Placement, arrangement and management fees received	2,580	31,430
Income from placements and financing received	3,752	30,074
Payments for operating expenses and project costs	(86,370)	(255,188)
Cash flows from operating activities	**(1,145,071)**	992,258
INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(76,764)	(62,307)
Purchase of investment in associates, net	-	(113,003)
Dividends received from associates	14,708	28,252
Proceeds from partial disposal of associate	51,502	-
Payment for development property	(19,310)	-
Cash flows in relation to a subsidiary held-for-sale, net	-	(38,627)
Cash out flows on acquisition of a subsidiary	-	(8,351)
Proceeds from disposal of / (payments) for acquisition of equipment and capital work-in-progress	365	(11,939)
Dividends and other income on investment securities received	3,242	6,139
Cash flows from investing activities	**(26,257)**	(199,836)
FINANCING ACTIVITIES		
Financing liabilities, net	29,238	50,218
Proceeds from issue of shares	276,381	-
Finance cost paid	(38,019)	(63,700)
Acquisition of treasury shares, net	-	(14,993)
Cash paid to charitable organisations	(360)	(1,313)
Board remuneration paid	(3,000)	(5,000)
Dividends paid	(57,644)	(196,576)
Net receipts from unrestricted investment accounts	746	1,119
Cash flows from financing activities	**207,342**	(230,245)
(Decrease) / increase in cash and cash equivalents	**(963,986)**	562,177
Cash and cash equivalents at 1 January	1,289,538	727,361
Cash and cash equivalents at 31 December	**325,552**	1,289,538
Represented by:		
Cash and bank balances	10,174	13,863
Placements with financial and other institutions (note 5)	315,378	1,275,675
	325,552	1,289,538

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2009

2009	Balance at 1 January 2009			Movements during the year						Balance at 31 December 2009		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.36	54	-	(2)	-	-	-	-	150	0.35	**52**
Kuwait National Real Estate Investment & Services Co. KSCC	250	0.36	90	-	(3)	-	-	-	-	250	0.35	**87**
Gulf Holding Company	10,000	0.36	3,624	-	(866)	-	(341)	-	-	10,000	0.24	**2,417**
Gulf North Africa Holding Company KSCC	11,500	0.36	4,168	-	(995)	-	(422)	-	-	11,500	0.24	**2,751**
Gulf Real Estate Development Company	936	13.32	12,472	-	(8)	-	(1,193)	-	-	936	12.05	**11,271**
Al Basha'er Fund	203	7.93	1,610	(764)	546	-	-	(721)	-	93	7.22	**671**
Pan European Fund	35.85	1,410.76	50,576	-	(19,411)	-	-	-	-	35.85	869.32	**31,165**
Oman Development Company	522.50	3.12	1,628	-	-	-	-	-	-	522.50	3.12	**1,628**
			74,222	**(764)**	**(20,739)**	**-**	**(1,956)**	**(721)**	-			**50,042**

Revaluation changes include gain of US$ 2,855 thousand (2008: loss of US$ 3,532) on account of foreign exchange translation differences and US$ 22,795 thousand (2008: US$ Nil) of impairment allowances for decline in value of investments

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2009 *(continued)*

2008	Balance at 1 January 2008			Movements during the year						Balance at 31 December 2008		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.37	58	-	(4)	-	-	-	-	150	0.36	54
Kuwait National Real Estate Investment & Services Co. KSCC	1,130	0.37	414	(712)	8	380	-	-	-	250	0.36	90
Gulf Holding Company	10,000	0.37	3,663	-	(39)	-	-	-	-	10,000	0.36	3,624
Gulf North Africa Holding Company KSCC	11,500	0.37	4,212	-	(44)	318	(318)	-	-	11,500	0.36	4,168
Gulf Real Estate Development Company	936	13.33	12,471	-	1	843	(843)	-	-	936	13.32	12,472
Al Basha'er Fund	245	13.72	3,365	(580)	(1,175)	-	-	-	-	203	7.93	1,610
Pan European Fund	35.85	1,474.40	52,855	-	(2,279)	2,834	(2,834)	-	-	35.85	1,410.76	50,576
Oman Development Company	-	-	-	1,628	-	-	-	-	-	522.50	3.12	1,628
			77,038	336	(3,532)	4,375	(3,995)	-	-			74,222

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2009

US$ 000's

	2009	2008
Sources of charity and zakah fund		
Contributions by the Bank	5,875	3,281
Non-Islamic income (note 32)	23	94
Total sources	**5,898**	3,375
Uses of charity fund and zakah fund		
Contributions to charitable organisations	(360)	(1,313)
Total uses	**(360)**	(1,313)
Excess of sources over uses	5,538	2,062
Undistributed charity and zakah fund at 1 January	5,718	3,656
Undistributed charity and zakah fund at 31 December (note 17)	**11,256**	5,718

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank's Global Depository Receipts ('GDR') are listed in the London Stock Exchange. The Bank operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB").

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

Consolidated financial statements

The consolidated financial statements for the year comprise the financial statements of the Bank and its subsidiaries (together referred to as "the Group"). The significant subsidiaries of the Bank include Al Areen Leisure and Tourism Company – 'The Lost Paradise of Dilmun SPC' ("water park"), Legends Development Company LLC and Injazat Capital Limited which are wholly owned.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group entities, except for the changes resulting from amendments made to accounting standards (refer note 2(c)).

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ('IFRS / IAS').

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain available-for-sale investments and investments in associates designated at fair value through profit or loss.

The Group classifies its expenses by the nature of expense method.

Going concern

For the year ended 31 December 2009, the Group incurred a loss of US$ 728,379 thousand and, as of that date, its current contractual liabilities exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due depends on its ability to achieve a timely disposal of assets. Further, the capital adequacy ratio as at 31 December 2009 was too close to the minimum regulatory capital requirements which restricts the Group's ability to absorb further losses or undertake additional exposures. These factors indicate the existence of material uncertainties which may cast doubt about the Group's ability to continue as a going concern.

Subsequent to the year end, the Bank has refinanced a portion of its debt and the management has put in place an assets sale and liquidity plan that would generate the required liquidity to meet its obligation when due (refer note 40 (b)). These actions are also expected to improve the Bank's capital adequacy ratio (refer note 41). The Board of Directors have reviewed the Bank's future plans and are satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(b) Basis of preparation (continued)

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(c) Standards, amendments and interpretations effective from 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

IAS 1 (revised), 'Presentation of financial statements'

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Group has opted to present separate statements – an income statement and a separate statement of comprehensive income. Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements along with the required comparative information.

IFRS 2, 'Share-based payment' – Vesting conditions and cancellations

The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. These amendments require retrospective application. Based on the Group's assessment, the impact of the amendment to IFRS 2 is not material to the consolidated financial statements.

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the group. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided (refer note 40).

IFRS 8, 'Operating segments'

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group primarily operated as an investment bank and its primary lines of business comprise development infrastructure, private equity, venture capital and asset management. Until recently, the Group's revenue was reviewed by lines of business and the expenses and results were reviewed at a Group level and therefore no separate operating segment results and other disclosures were provided.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Standards, amendments and interpretations effective on or after 1 January 2009 (continued)

From the current year, the Group has realigned its activities into two primary business units, 1) Development Infrastructure and 2) Banking. Segment results and related information is now reported to the Board of Directors, who is the Group's chief operating decision maker, using the new segment classification. From the current year, the Group presents its operating segment disclosures in accordance with IFRS 8 (refer note 37). Comparative segment information has been presented in conformity with the transitional requirements of the standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Improvements to IFRS (May 2008)

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for an impairment. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated income statement.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 27.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation (continued)

(ii) Associates

Associates are those enterprises in which the Group holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies. On initial recognition of investment in each associate, the Bank makes an accounting policy choice as to whether the associate shall be equity accounted or designated as an investment at fair value through profit or loss.

The Group, being a venture capital organisation, designates certain of its investments in associates, as allowed by IAS 28 'Investments in Associates', as 'investments carried at fair value through profit or loss in accordance with IAS 39 [refer note 2 (g)]. These are managed, evaluated and reported on internally on a fair value basis.

If the equity accounting method is chosen for an associate, the investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates that are equity accounted have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

(iii) Group companies

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, financing receivables, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances.

(i) Recognition and de-recognition

All financial assets (except investment securities) and liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification of financial assets and liabilities

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Except for investment securities (refer note 2 (g)), the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

(iii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(g) Investment securities

The Group classifies its investment securities, excluding investment in subsidiaries and equity accounted associates (refer note 2 (d)), in the following categories: investment at fair value through profits or loss; held-to-maturity investments and available-for-sale investments.

(i) Classification

Investments carried at fair value through profit or loss are financial assets that are held for trading or which upon initial recognition are designated by the Group as fair value through profit or loss.

An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The Group currently does not hold trading investments.

The Group designates investment securities at fair value through profit or loss at inception only when it is managed, evaluated and reported on internally on a fair value basis. These include certain private equity investments and investments in certain quoted associates - refer note 2 (d)].

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale. The Bank currently does not hold any held-to-maturity investments.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in certain quoted and unquoted equity securities.

(ii) Initial recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the profit or loss when incurred.

(iii) Subsequent measurement

Subsequent to initial recognition, investments carried at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the comprehensive income and presented in a separate fair value reserve within equity. When the available-for-sale investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of comprehensive income is transferred to the income statement.

Held-to-maturity investments are measured at amortised cost less any impairment allowances.

Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are carried at cost less impairment allowances.

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(g) Investment securities (continued)

(iv) Fair value measurement principles

Fair value for quoted investments is their market bid price. For unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the shares, or based on recognised internal valuation models, or based on valuations undertaken by independent external valuers.

For certain investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

(h) Assets held-for-sale

(i) Classification

The Group classifies non-current assets or disposal groups as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held for sale and income and expense from its operations are presented as part of discontinued operation in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell. The Bank continues to classify non-current assets or disposal groups as held for sale where events or circumstances beyond the control of the Bank extend the period to complete the sale beyond twelve months and the Bank remains committed to its plan to sell.

(ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments measured under IAS 39 'Financial Instruments: Recognition and Measurement', are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held for sale' are carried at fair value in accordance with IAS 39.

(i) Placements with and from financial and other institutions

These comprise placements made or received under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(j) Financing receivables

Financing receivables comprise shari'a compliant financing provided to Group's projects which are stated at amortised cost less impairment allowances.

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents comprise cash, bank balances and short-term highly liquid assets (placements with financial and other institutions) with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost less impairment allowances.

(l) Development property

Development property comprise land held by the Group for development of infrastructure projects and sale in the ordinary course of business. Development property is carried at the lower of cost and estimated net realisable value. Cost includes expenditure that is directly attributable to the acquisition of the property. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete the development and selling expenses.

(m) Operating property and equipment

Operating property and equipment comprise assets used in the operations of the water park. Other equipment include assets used by the Bank. All property and equipment are stated at cost, net of accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 5 years for furniture, fixtures and equipments, motor vehicles and computers. Building is depreciated over a period 20 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(n) Impairment of assets

The Bank assesses at each reporting date whether there is objective evidence that a asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

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

Available-for-sale investments

In the case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. In case of equity securities quoted in active markets, the Group considers a decline in value of 20% below cost or a decline in value that persists for more than 6 months as an indicator of impairment. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(n) Impairment of assets (continued)

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Other non-financial assets
The carrying amount of the Group's assets or its cash generating unit, other than financial assets and development property, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

(o) Risk management instruments

The Group enters into shari'a compliant foreign exchange risk management instruments on behalf of its customers/ projects on a back-to-back basis and does not retain significant open positions. These derivative-type risk management instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a instrument is the equivalent of the unrealised gain or loss from marking to market the instrument using prevailing market rates. Instruments with positive market values (unrealised gains) are disclosed under other assets and instruments with negative market values (unrealised losses) are disclosed under other liabilities in the statement of financial position. For risk management instruments that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the income statement.

(p) Financing liabilities

Financing liabilities comprise shari'a compliant financing facilities from financial institutions, financing raised through issue of Sukuk and the liability component of convertible murabaha financing. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends, losses and gains relating to the financial liabilities are recognised in the income statement.

Financing liabilities include compound financial instrument in the form of 'convertible murabaha' issued by the Group that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective profit rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (refer note 39).

(r) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(s) Share capital and reserves

Ordinary shares are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's income statement on the sale of treasury shares.

Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(t) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

(u) Unrestricted investment accounts

Unrestricted investment accounts are funds held by the Group, which it can invest at its own discretion. The unrestricted investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to unrestricted investment account holders. Of the total income from unrestricted investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Unrestricted investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(v) Revenue recognition

Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction.

Income from investment banking services is received either in cash or in kind (i.e. equity shares in the investment being promoted by the Bank). Income received in kind is measured at the fair value of the consideration received. Generally the shares received are in privately held entities and there is no immediate market for trading. Fair value of consideration received in the form of shares is measured by reference to the transaction price paid by investors and as per the agreed pricing terms specified in the private placement memorandums.

Placement, arrangement and management fees are recognised as income when earned and the related services are performed.

Income from placements with financial and other institutions are recognised on a time-apportioned basis over the period of the related contract.

Income from financing receivables is recognised using the effective profit rates of the receivables over the period of the contract.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

(w) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

(x) Zakah

Pursuant to the decision of the shareholders', the Group is required to pay Zakah on its undistributed profits. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

(y) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Employees benefits (continued)

(ii) Post employment benefits

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" under IAS 19 and any increase or decrease in the benefit obligation is recognised in the income statement.

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Bank. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain market and non-market based performance conditions and service conditions (the 'vesting conditions').

The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Market conditions and non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(z) Provisions

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (f)].

3 *CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)*

(ii) Classification as assets held-for-sale

The Group classifies non-current assets or disposal groups as 'held for sale' if it's carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. In addition, the sale is expected to be completed within one year from the date of classification and the management must be committed to a plan to sell and an active programme to locate a buyer and complete the plan must have initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The expected time of completion of sale and management's plan to sell is based on management assumptions in relation to the condition of the asset and its current performance and requires judgement. There is no certainty on the execution and completion of the sale transaction and any changes in the plan to sell may cause the classification of the disposal group to be changed and consequently the basis of measurement, presentation and disclosure in the consolidated financial statements.

(iii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

(i) Fair value of investments

The Group determines fair values of investment in associates designated at fair value through profit or loss that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements. The potential effect of using reasonable possible alternative assumptions for valuing the investments would increase or decrease the fair values by US$ 2,395 thousand (2008: US$ 1,668 thousand).

3 *CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)*

Estimations (continued)

(ii) Impairment on available-for-sale investments

Available-for-sale investments where fair values are not readily available and reliably measurable are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise investments in long-term real estate and infrastructure development projects. In making a judgement of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

(iii) Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation, level of subordination available to the Bank and the net realisable value of any underlying assets. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

(iv) Impairment of cash generating units

Cash generating includes the Group's investments in certain subsidiaries and investment in equity accounted associates that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 2 (n). It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

It is the Group's intention to sell the subsidiary representing a separate cash generating unit through a private placement or sale to an owner-operator of the cash generating unit after sufficient level of operations are achieved. For the purposes of assessment of recoverable amount of a cash generating unit, the Group makes best estimates of the value in use from an owner-operator's perspective.

The estimates used in assessing the impairment and deriving the value in use of the 'operating property and equipment of water park' is included in note 12.

4 CASH AND BANK BALANCES

	31 December 2009	31 December 2008
Cash	8	8
Bank balances	10,113	13,802
Deposit with Central Bank of Bahrain	53	53
	10,174	13,863

5 PLACEMENTS WITH FINANCIAL AND OTHER INSTITUTIONS

	31 December 2009	31 December 2008
Gross placements	455,066	1,276,188
Less: Deferred profits	(100)	(513)
Net placements	**454,966**	1,275,675

Placements with financial and other institutions include balances amounting to US$ 139,588 thousand (2008: Nil) that is pledged against commitments and facilities of projects of the Group and are not available for the Group's day-to-day operations.

6 FINANCING RECEIVABLES

	31 December 2009	31 December 2008
Murabaha financing receivables	29,173	23,039
Wakala financing receivables	62,650	62,650
	91,823	85,689
Less: Provision for impairment	(62,650)	(16,500)
	29,173	69,189

Murabaha financing receivables are net of deferred profits of US$ 236 thousand (2008: US$ 375 thousand).

7 ASSETS-HELD-FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD-FOR-SALE

	31 December 2009	31 December 2008
Asset held-for-sale (Development property)	601,498	611,996
Payable towards development property	(290,480)	(317,186)
	311,018	294,810
Less: Provision for impairment during the year	(311,018)	-
	-	294,810

Assets and liabilities held-for-sale comprise the Group's net investment in a subsidiary (project company) set up to develop an infrastructure project in Dubai, United Arab Emirates. The assets of the subsidiary primarily comprised the project land and the liability comprised the balance land cost payable to the owner. In 2008, the Bank negotiated an agreement with a buyer to assign its participating interest in the project company, subject to certain approvals by the owner. Accordingly, the asset was classified as 'held-for-sale'.

In December 2009, in light of the Group's new strategy and in the Group's long term interests, the Board of Directors decided not to proceed with the project. Full impairment of the Group's net exposure to the project has been recognised with a resultant de-recognition of the balance liability towards land costs. The Bank is currently discussing the closure formalities with the owner and does not expect any significant additional liability to arise on final closure (refer note 39).

8 INVESTMENT IN ASSOCIATES

The movement in investment in associates during the year is as given below:

	2009	2008
At 1 January	409,779	227,686
Reclassification during the year	70,692	50,000
Acquisitions during the year	-	125,000
Share of (losses) / profits from associates	(171)	94,968
Distributions received during the year	(14,710)	(22,779)
Disposals during the year, at carrying value	(59,166)	(65,096)
Provision for impairment during the year	(30,000)	-
At 31 December	**376,424**	409,779

During the year, the Group partially sold its investment in an associate thereby losing its ability to exercise significant influence over the entity. Accordingly designated the remaining investment as available-for-sale. The sale has resulted in a realised loss of US$ 7,117 thousand.

The fair value of investments in associates for which there are published price quotations amount to US$ 133,839 thousand (2008: US$ 186,296 thousand). The carrying values of these investments amount to US$ 131,565 thousand (2008: US$ 146,260 thousand).

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited / unaudited management accounts):

	2009	2008
Total assets	2,100,539	2,631,054
Total liabilities	525,105	1,330,469
Total revenues	88,522	326,494
Total net profits	14,494	218,815

9 INVESTMENT SECURITIES

	31 December 2009	31 December 2008
Investments designated at fair value through profit or loss	33,976	41,245
Available-for-sale investments	315,423	406,892
	349,399	448,137

a) AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
At 1 January	406,892	246,346
Acquisitions during the year	77,480	205,732
Reclassification during the year, net	(70,692)	-
Disposals during the year, at carrying value	(50,625)	(26,308)
Provision for impairment during the year	(47,475)	(17,211)
Fair value changes during the year	(157)	(1,667)
At 31 December	**315,423**	406,892

9 INVESTMENT SECURITIES (continued)

a) AVAILABLE-FOR-SALE INVESTMENTS (continued)

Available-for-sale investments are private equity investments managed by external investment managers or investments in projects promoted by the Group. Available-for-sale investments of US$ 311,133 thousand (2008: US$ 401,665 thousand) are carried at cost less impairment in the absence of a reliable measure of fair value. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

The movement in impairment allowances for available-for-sale investments were as follows:

	2009	2008
At 1 January	43,697	26,486
Provision for impairment during the year	47,475	17,211
At 31 December	**91,172**	43,697

Available-for-sale investments are primarily in unlisted equities in various real estate and infrastructure development projects and the impairment allowances has been established based on the management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

b) INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009	2008
At 1 January	41,245	60,361
Acquisitions during the year	-	15,937
Disposals during the year, at carrying value	-	(17,890)
Reclassified on acquisition of controlling stake	-	(17,163)
Fair value changes during the year	(7,269)	-
At 31 December	**33,976**	41,245

9 INVESTMENT SECURITIES (continued)

b) INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Summarised financial information of associates designated at fair value through profit or loss not adjusted for the percentage ownership held by the Group (based on most recent audited / unaudited management accounts):

	2009	2008
Total assets	99,708	97,795
Total liabilities	25,504	25,270
Total revenues	65,701	97,408
Total net profits	4,442	8,361

10 RECEIVABLE FROM INVESTMENT BANKING SERVICES

During the year, the Bank has recognised an impairment allowance of US$ 83,570 thousand (2008: Nil) against the impaired receivables (refer note 25).

11 OTHER ASSETS

	31 December 2009	31 December 2008
Project costs recoverable	6,321	29,320
Financing to projects	264,140	246,682
Receivable from sale of investments	94,463	58,410
Operating property and equipment of water park (note 12)	28,625	44,341
Other equipment (note 13)	15,910	19,449
Goodwill on acquisition of subsidiaries	17,375	17,375
Prepayment and other receivables	27,320	24,488
	454,154	440,065
Less: Provision for impairment during the year:		
- Financing to projects	(77,382)	-
- Goodwill	(17,375)	-
- Other receivables	(22,467)	(6,001)
	336,930	434,065

Financing to projects represents working capital and funding facilities provided to projects promoted by the Group in the normal course of business. The financing is expected to be recovered from the operating cash flows of the underlying project assets.

Goodwill includes US$ 15,135 thousand that was recognised on acquisition of Injazat Capital Limited (ICL), an asset management and investment banking institution registered in the Dubai International Financial Centre, in 2009. Goodwill was attributable mainly to the skills and technical talent of the acquired business's work force, and the synergies expected to be achieved from integrating the license of ICL into the Group's existing business. Considering its longer term interests, the Group did not continue its plan to support expansion and integration of the business of ICL and hence the goodwill was assessed to be impaired. Further, based on management assessment, goodwill amounting to US$ 2,240 thousand recognised on acquisition of 'water park" was also impaired and fully provided for during the year considering that the value-in-use of the cash generating unit was estimated to be below its carrying value (note 12).

12 OPERATING PROPERTY AND EQUIPMENT OF WATER PARK

Operating property and equipment comprise the assets of water park. The carrying amount of the water park's operating property and equipment is as follows:

	31 December 2009	31 December 2008
Cost	49,896	49,218
Accumulated depreciation	(8,610)	(4,877)
Provision for impairment during the year	(12,661)	-
Net carrying value	**28,625**	44,341

The Group has recognised an impairment allowance of US$ 12.66 million on the operating equipment of a water park based on its assessment of value-in-use of the cash generating unit by discounting the estimated future cash flows the Group expects to derive from the use of the water park.

The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience of actual operating results and for a 5-year projection period with a terminal growth rate of 3%. The forecast period is based on the Group's long-term perspective with respect to the operation of the water park; and

- Discount rate of 12% is applied in determining the recoverable amounts for the 'operating equipment of a water park. The discount rate was estimated based on past experience and the weighted average cost of capital.

The key assumptions described above may change as economic and market conditions change. The potential effect of an increase of 0.5% in the discount rates would decrease the value by US$ 2,097 thousand and a decrease of 0.5% in the discount rates would increase the value by US$ 2,353 thousand. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount to exceed the carrying amount. The impairment allowance was first recognised against the balance of goodwill and the remaining was attributed to the non financial operating assets of the water park.

The results of the water park operations that have been consolidated during the year is as follows:

	2009	2008
Gross revenues	6,057	6,379
Operating and other expenses	(6,204)	(7,925)
Depreciation	(3,734)	(4,284)
Loss for the year	**(3,881)**	**(5,830)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

13 OTHER EQUIPMENT

	Furniture	Fixtures and equipment	Motor vehicles	Computers	2009 Total	2008 Total
Cost						
At 1 January	2,856	14,061	516	10,506	**27,939**	7,827
Additions	188	1,892	-	801	**2,881**	19,770
Assets of subsidiary acquired during the year	-	-	-	-	-	750
Disposals	(1,021)	(711)	-	(2)	(1,734)	(408)
At 31 December	**2,023**	**15,242**	**516**	**11,305**	**29,086**	27,939
Depreciation						
At 1 January	1,191	2,440	97	4,927	**8,655**	4,703
Charge for year	497	3,046	107	2,865	**6,515**	4,339
Disposals	(1,014)	(695)	-	(2)	**(1,711)**	(387)
At 31 December	**674**	**4,791**	**204**	**7,790**	**13,459**	8,655
Net book value At 31 December	**1,349**	**10,451**	**312**	**3,515**	**15,627**	19,284
Capital work-in-progress	-	63	-	220	**283**	165
Total	**1,349**	**10,514**	**312**	**3,735**	**15,910**	19,449

14 INVESTORS' FUNDS
These represent funds of projects set-up or promoted by the Bank and placed with the Bank pending utilisation by the projects concerned.

15 PLACEMENTS FROM FINANCIAL AND OTHER INSTITUTIONS
These comprise placements (murabaha and wakala) accepted from financial and other institutions (including corporates) as part of the Group's treasury activities.

16 FINANCING LIABILITIES

	31 December 2009	31 December 2008
Murabaha financing facility	301,620	300,478
Wakala financing facilities	150,907	145,788
Sukuk liability	152,640	188,629
Convertible murabaha	47,353	-
	652,520	634,895

Murabaha and Wakala financing facilities

The Murabaha financing facility represents US$ 300 million obtained from a financial institution during 2006. The Murabaha financing facility is due for repayment in February 2010 and carries an agreed profit rate of 1.05% over the benchmark rate (LIBOR). Subsequent to the year end, the Bank repaid US$ 200 million of the facility and refinanced the balance of US$ 100 million repayable in 6 months.

Wakala financing facilities include financing of US$ 100 million obtained from financial institutions during 2008, by securing a charge over certain investment in associates of the Bank. The wakala financing carries an agreed profit rate of 7.5% and are repayable equally in March 2010 and March 2011. During the year, the Bank obtained additional wakala financing of US$ 50 million from a financial institution at a profit rate of 5.5% repayable in March 2011.

16 FINANCING LIABILITIES (continued)

Sukuk liability

In 2007, the Bank announced a US$ 1 billion medium term Shari'a compliant Sukuk issuance programme (the 'Programme'). The Programme provides a facility for the issuance of Sukuk Certificates in series (each, a "Series"). Under the terms of the Programme, the Bank issued its first Series of Sukuk Certificates amounting to US$ 200 million in 2007. The Sukuk Certificates issued under the Programme have a tenure of 5 years maturing on 2011 and returns based on an agreed spread of 125 bps over the benchmark rate (LIBOR). The Sukuk Certificates issued are backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions under the Programme. The Sukuk Certificates issued have been admitted for trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Subsequent to the year end, the applicable rate of return on the Sukuk has increased by 0.5% per annum consequent to the Bank's rating downgrade.

The Sukuk Certificates are backed by the Bank's investment in associates with carrying values of US$ 201,424 thousand (2008: US$ 284,779 thousand).

During the year the Bank, repurchased Sukuk Certificates of nominal value of US$ 37.8 million resulting in a gain of US$ 11.61 million (2008: Nil) which is included in 'Other income'.

Convertible murabaha facility

During the year, the Group issued a compound financial instrument ("Notes") of US$ 100 million in the form of unsecured convertible murabaha facility. The Notes have a tenure of 3 years maturing on October 2012 unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.38 per share. The Notes provide for returns of 8% p.a. payable quarterly to the holder. From the perspective of the Group, this instrument comprises a financial liability and an equity instrument that are recognised separately. The liability is measured at amortised cost. The equity component is a written call option that allows the holder of the Notes to exercise the conversion option at any time during the tenure of the facility.

Immediately after the issue of the Notes, certain holders of the Notes amounting to US$ 30 million exercised their conversion option for 79 million equity shares. The proceeds from the issue of convertible murabaha and movement in the account balance is as given below:

	2009
Proceeds from issue of convertible murabaha	80,000
Amount transferred to equity on exercise of the conversion option	(30,000)
Transaction costs	(1,920)
Net proceeds	**48,080**
Embedded conversion component classified under equity	(1,266)
Net liability component	**46,814**
Accrued finance cost for the year	539
Carrying amount of financing liability at 31 December 2009	**47,353**

Subsequent to the year end, additional Notes amounting to US$ 10 million have been converted into equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

17 OTHER LIABILITIES

	31 December 2009	31 December 2008
Employee accruals	46,682	42,446
Unclaimed dividends	8,402	13,483
Provision for employees' leaving indemnities	772	910
Charity and zakah fund (refer page 14)	11,256	5,718
Accounts payable	7,577	6,321
Accrued expenses and other payables	21,895	18,948
	96,584	87,826

18 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts comprise Mudarabah deposits accepted by the Bank. The average gross rate of return in respect of unrestricted investment accounts was 0.76% for 2009 (2008: 2.89%). Approximately 0.76% / US$ 20 thousand (2008: 2.89% / US$ 98 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 3 thousand (2008: US$ 3 thousand) and investment risks reserve of US$ 2 thousand (2008: US$ 2 thousand). The funds received from unrestricted investment account holders have been commingled and jointly invested with the Group in placements with financial and other institutions.

19 SHARE CAPITAL

	31 December 2009	31 December 2008
Authorised:		
4,545,454,545 (2008: 1,515,151,515) shares of US$ 0.33 each	**1,500,000**	500,000
Issued and fully paid up:		
1,830,543,093(2008: 796,401,811) shares of US$ 0.33 each	**604,079**	262,813

In the shareholders extra-ordinary meeting held on 10 September 2009, the shareholders resolved to increase the authorised capital of the Bank to US$ 1.5 billion. The Bank is currently in the process of updating its memorandum and articles of association.

During the year, the paid up capital of the Bank increased from US$ 262,813 thousand to US$ 604,709 thousand as a result of:

- issue of bonus shares (twenty shares for every hundred shares held) amounting to US$ 52,562 thousand (2008: US$ 23,892 thousand, ten shares for every hundred shares held);
- issue of ordinary shares of US$ 262,651 thousand at a premium of US$ 0.05 per share; and
- exercise by holders of convertible murabaha facility to convert 79 million ordinary shares of US$ 26,053 thousand at a premium of US$ 0.05 per share (refer note 16).

At 31 December 2009, the Bank held 102,254,809 (2008: 8,448,808) treasury shares.

19 SHARE CAPITAL (continued)

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	1,050,835,345	6,990	57.41
1% up to less than 5%	539,295,046	15	29.46
5% up to less than 10%	240,412,702	2	13.13
	1,830,543,093	7,007	100

** Expressed as a percentage of total outstanding shares of the Bank.*

(iii) Shareholders that hold more than 5% are as follows:

Name	Nationality	No. of shares
Shamil Bank of Bahrain	Bahraini	138,157,893
Gulf Finance House BSC (treasury shares)	Bahraini	102,254,809

20 OTHER RESERVES

	2009			2008		
	Share grant reserve	Equity component of convertible murabaha	Total	Share grant reserve	Equity component of convertible murabaha	Total
Balance at 1 January	23,508	-	23,508	-	-	-
Separation of equity component in a compound financial instrument (note 16)	-	1,266	1,266	-	-	-
Vesting expense, net of forfeiture (note 26)	(20,474)	-	(20,474)	23,508	-	23,508
At 31 December	**3,034**	**1,266**	**4,300**	23,508	-	23,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

21 (LOSS) / INCOME FROM INVESTMENT IN ASSOCIATES

	2009	2008
Share of (losses) / profits from associates, net	(171)	94,968
Loss on partial disposal of associate	(7,117)	-
	(7,288)	94,968

22 (LOSS) / INCOME FROM INVESTMENT SECURITIES

	2009	2008
Dividend income	3,242	1,609
Gain on disposal of available-for-sale investments	-	221
Changes in fair value of investments designated at fair value through profit or loss	(7,269)	-
	(4,027)	1,830

23 STAFF COST

	2009	2008
Salaries and benefits	26,545	131,151
Social insurance expenses	1,089	1,423
Other staff expenses	1,747	1,968
	29,381	134,542

24 TOTAL FINANCE INCOME AND EXPENSE

	2009	2008
TOTAL FINANCE INCOME		
Income from placements with financial and other institutions	3,752	29,555
Income from financing receivables	1,513	1,533
	5,265	31,088
TOTAL FINANCE COST		
Investors' funds	118	10,908
Placements from financial and other institutions	9,809	18,572
Financing liabilities	29,631	33,929
Unrestricted investment accounts	20	98
	39,578	63,507
NET FINANCE EXPENSE	**(34,313)**	(32,419)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

25 PROVISION FOR IMPAIRMENT

	2009	2008
Financing receivables (note 6)	53,650	16,500
Assets held-for-sale (note 7)	311,018	-
Investment in associates (note 8)	30,000	-
Investment securities (note 9)	47,475	17,211
Receivable from investment banking services (note 10)	83,570	-
Financing to projects(note 11)	77,382	-
Goodwill (note 11)	17,375	-
Other receivables (note 11)	22,467	6,001
Operating property and equipment of a water park (note 12)	12,661	-
	655,598	39,712

26 SHARE-BASED EMPLOYEE COMPENSATION SCHEME

Until December 2008, the Bank operated a share incentive scheme for its employees based on achievement of market based performance and service conditions. Due to the effect of market conditions on the scheme, the Board of Directors in its meeting on 22 December 2008 approved a replacement share incentive scheme based on non-market based performance and service conditions. The revised scheme has also lowered the total number of share awards to be granted from 181 million shares to 108.6 million shares. The revised scheme is effective from the performance year 2009. The share awards granted under the revised scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. A total of 97.740 million share awards were granted under the terms of the replacement scheme.

The share awards are in the nature of options and have been fair valued as such. The grant date fair value of shares of the original scheme was determined at US$ 0.90 per share awards. The incremental fair value of the replacement scheme at the date of modification was estimated to be US$ 0.13 per share. The incremental fair value of the replacement scheme is the difference between the fair value of the modified award and the original award, both estimated at the date of modification. The fair value of the original awards on the date of modification was determined to be zero (as the options were out of money) and the fair value of the replacement scheme (non-market condition based) was arrived at using the market value of the shares at the grant date less the exercise price payable by employees.

Of the cumulative 97.740 million share awards granted under the terms of the scheme, 81.650 million were forfeited during the year due to failure to satisfy service conditions specified at grant date. At 31 December 2009, 16.090 million share awards are outstanding to be exercised in future periods on satisfaction of the vesting conditions. A net reversal of vesting charge amounting to US$ 20,474 was recognised during the year primarily due to the forfeitures of share awards on non-satisfaction of service conditions.

27 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,824,055 thousand (2008: US$ 2,982,065 thousand). During the year, the Bank has charged management fees amounting to US$ 4,400 thousand (2008: US$ 5,840 thousand) for the activities related to management of assets.

28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portions of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms in the private placement memorandum.

The significant related party balances and transactions(excluding compensation to key management personnel) included in these consolidated financial statements are as follows:

2009	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
Assets					
Cash and bank balances	1,387	-	3	-	**1,390**
Placements with financial and other institutions	28,357	-	64,358	-	**92,715**
Financing receivables	-	-	15,000	-	**15,000**
Investment in associates	376,424	-	-	-	**376,424**
Investment securities	33,976	-	111,554	157,456	**302,986**
Receivable from investment banking services	-	-	-	85,270	**85,270**
Other assets	35,639	-	36,005	159,230	**230,874**
Liabilities					
Investors' funds	-	-	-	246,193	**246,193**
Placements from financial and other institutions	497	-	85,909	-	**86,406**
Financing liabilities	-	-	52,108	-	**52,108**
Income					
Income from investment banking services	-	-	-	46,540	**46,540**
Placement, arrangement and management fees	-	-	-	2,580	**2,580**
Income from placements with financial and other institutions	122	-	440	-	**562**
Income from financing	-	-	-	-	**-**
(Loss) / income from investment in associates	(7,288)	-	-	-	**(7,288)**
(Loss) / income from investment securities	(7,279)	-	-	1,955	**(5,324)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

28 RELATED PARTY TRANSACTIONS (continued)

2009	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Expenses					
Provision for impairment	30,000	3,030	18,828	237,157	**289,015**
Finance cost	144	-	8,076	118	**8,338**
Commitments					
Financial guarantees	-	-	-	169,454	**169,454**
Commitment to finance	-	-	-	-	**-**
Commitment to invest	-	-	-	30,000	**30,000**
Equity transaction					
Transaction cost	-	-	14,300	-	**14,300**

2008	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Cash and bank balances	4,569	-	-	-	4,569
Placements with financial and other institutions	30,042	-	40,049	-	70,091
Financing receivables	-	-	-	69,189	69,189
Investment in associates	409,779	-	-	-	409,779
Investment securities	41,245	-	99,778	274,507	325,730
Receivable from investment banking services	-	-	-	222,343	222,343
Other assets	7,608	-	-	244,022	251,630
Liabilities					
Investors' funds	6,766	-	13,630	518,388	538,784
Placements from financial and other institutions	51,902	-	623,113	-	675,015
Income					
Income from investment banking services	-	-	-	453,191	453,191
Placement, arrangement and management fees	-	-	-	5,841	5,841
Income from placements with financial and other institutions	92	-	244	-	336
Income from financing	-	-	-	1,533	1,533
(Loss) / income from investment in associates	(94,968)	-	-	-	(94,968)
(Loss) / income from investment securities	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

28 RELATED PARTY TRANSACTIONS (continued)

2008	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Expenses					
Provision for impairment	-	-	-	39,712	39,712
Finance cost	920	-	11,034	-	11,954
Commitments					
Financial guarantees	-	-	-	191,970	191,970
Commitment to finance	-	-	-	20,000	20,000
Commitment to invest	-	-	-	31,562	31,562
Equity transaction					
Transaction cost	-	-	-	-	-

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were :

Categories*	**Number of Shares**	**Number of Directors**
Less than 1%	2,767,072	3

** Expressed as a percentage of total outstanding shares of the Bank.*

Details of material contracts involving directors' include:

	2009	2008
Directors' participation in investments promoted by the Group	21,235	131,685

The key management personnel compensation is as follows:

	2009	2008
Board remuneration	3,000	5,000
Board member fees	2,477	2,279
Share-based payments (net of forfeitures)	(19,285)	21,550
Salaries and other short-term benefits	2,390	49,389
Post employment benefits	212	235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

29 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose a dividend of Nil (2008: 40%) of the paid-up capital and other appropriations, subject to the approval of the shareholders' at the annual general meeting, as follows:

	2009	2008
Proposed dividend	-	105,125
Charity contribution	-	3,000
Directors' remuneration	-	5,000

30 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the (loss) / profit for the year by the weighted average number of equity shares outstanding during the year.

	2009	2008
(Loss) / profit for the year (US$ 000's)	(728,379)	291,885
Weighted average number of ordinary equity shares (Nos. in 000's)	1,064,754	1,003,765
Basic earnings per share (in US cents)	**(68.41)**	29.08
Diluted earnings per share (in US cents)	**(68.41)**	29.08

In accordance with IAS 33 'Earnings per share', the weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the period without corresponding change in resources. Accordingly, the weighted average number of ordinary shares for 2008 have been restated to include the bonus issue in 2009 and the theoretical bonus element from the rights issue during the year (refer note 19).

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The Bank has two categories of dilutive potential ordinary shares: convertible murabaha notes (note 16) and share awards granted to employees (note 26).

As the Bank has reported a loss during the period, the conversion of the murabaha facility to ordinary shares would not result in dilution i.e. increase the loss per share. Further, in case of the share awards granted to employees, as the average market value of shares during the current period was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2009. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share.

31 ZAKAH

Based on the computation approved by the Shari'a Supervisory Board, the Bank has appropriated US$ 2,875 thousand (2008: US$ 1,312 thousand) from retained earnings towards payment of Zakah which is included in other liabilities.

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. No Zakah is payable by the shareholders for the year ended 31 December 2009 as the Bank has incurred losses during the year (2008: US cents 0.17 for every share held).

32 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 23 thousand (2008: US$ 94 thousand).

33 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

34 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

35 MATURITY PROFILE

The table below shows the maturity profile of the Group's financial assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 40 (b).

31 December 2009	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Bank balances	10,174	-	-	-	-	**10,174**
Placements with financial and other institutions	454,966	-	-	-	-	**454,966**
Financing receivables	14,173	15,000	-	-	-	**29,173**
Investment in associates	-	131,566		244,858	-	**376,424**
Investment securities	117,881	9,523	25,000	196,995	-	**349,399**
Receivable from investment banking services	40,540	44,730	-	-	-	**85,270**
Other financial assets	33,004	8,854	55,000	190,684	-	**287,542**
Total assets	**670,738**	**209,673**	**80,000**	**632,537**	**-**	**1,592,858**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

35 MATURITY PROFILE (continued)

31 December 2009	Up to 3 months	3 to 6 months	6 months - 1 year	1 to 3 years	Over 3 years	Total
Financial liabilities						
Investors' funds	94,831	59,820	41,014	50,528	-	**246,193**
Placements from financial and other institutions	210,842	-	-	-	-	**210,842**
Financing liabilities	127,346	223,674	-	301,500	-	**652,520**
Other financial liabilities	51,382	34,254	-	10,176	-	**95,812**
Total liabilities	**484,401**	**317,748**	**41,014**	**362,204**	**-**	**1,205,367**
Unrestricted investment accounts	2,875	-	-	-	-	**2,875**
Off-balance sheet items						
Restricted investment accounts	-	-	-	50,042	-	**50,042**
Commitments and guarantees	32,388	58,552	73,797	35,613	-	**200,350**

31 December 2008	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Bank balances	13,863	-	-	-	-	13,863
Placements with financial and other institutions	1,276,188	-	-	-	-	1,275,675
Financing receivables	-	-	-	69,189	-	69,189
Assets held-for-sale	75,844	75,844	151,688	308,620	-	611,996
Investment in associates	26,525	-	26,525	121,950	234,779	409,779
Investment securities	27,645	1,234	83,048	196,112	140,098	448,137
Receivable from investment banking services	142,343	80,000	-	-	-	222,343
Other financial assets	94,179	16,374	158,434	83,514	-	352,501
Total assets	1,656,587	173,452	419,695	779,385	374,877	3,403,483

31 December 2008	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Liabilities						
Investors' funds	511,559	-	-	27,225	-	538,784
Placements from financial and other institutions	935,288	2,250	-	-	-	937,538
Financing liabilities	-	-	-	446,265	188,630	634,895
Liabilities directly associated with assets held-for-sale	37,922	37,922	75,844	165,498	-	317,186
Other financial liabilities	70,093	-	4,883	11,940	-	86,916
Total liabilities	1,544,862	40,172	80,727	650,928	188,630	2,515,319
Unrestricted investment accounts	1,945	-	-	-	-	1,945
Off-balance sheet items						
Restricted investment accounts	-	-	-	74,222	-	74,222
Commitments and guarantees	20,000	-	-	134,465	-	154,465

36 CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRCITED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 December 2009	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	10,174	-	-	-	**10,174**
Placements with financial and other institutions	-	454,966	-	-	-	**454,966**
Financing receivables	-	15,000	14,173	-	-	**29,173**
Investment in associates	69,450	131,974	175,000	-	-	**376,424**
Investment securities	24,452	94,576	140,421	5,000	84,950	**349,399**
Receivable from investment banking services	-	-	85,270	-	-	**85,270**
Other assets	-	639	154,539	-	181,752	**336,930**
Total assets	**93,902**	**707,329**	**569,403**	**5,000**	**266,702**	**1,642,336**
Liabilities						
Investors' funds	85,656	24,350	133,959	-	2,228	**246,193**
Placements from financial and other institutions	-	93,869	-	-	116,973	**210,842**
Financing liabilities	-	652,520	-	-	-	**652,520**
Liabilities directly associated with assets held-for-sale	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	96,584	**96,584**
Total liabilities	**85,656**	**770,739**	**133,959**	**-**	**215,785**	**1,206,139**
Unrestricted investment accounts	-	-	-	-	2,875	**2,875**
Off-Balance sheet items						
Restricted investment accounts	-	-	50,042	-	-	**50,042**
Commitments and guarantees	-	-	200,350	-	-	**200,350**

36 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(a) Industry sector (continued)

31 December 2008	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	13,322	-	-	541	13,863
Placements with financial and other institutions	-	1,275,675	-	-	-	1,275,675
Financing receivables	-	-	69,189	-	-	69,189
Assets held-for-sale	-	-	611,996	-	-	611,996
Investment in associates	-	234,779	175,000	-	-	409,779
Investment securities	124,452	50,050	174,295	9,770	89,570	448,137
Receivable from investment banking services	-	78	222,232	33	-	222,343
Other assets	1,294	10,600	129,897	-	292,274	434,065
Total assets	125,746	1,584,504	1,382,609	9,803	382,385	3,485,047
Liabilities						
Investors' funds	186,405	64,969	144,284	-	143,126	538,784
Placements from financial and other institutions	-	937,538	-	-	-	937,538
Financing liabilities	-	453,127	-	-	181,768	634,895
Liabilities directly associated with assets held-for-sale	-	-	317,186	-	-	317,186
Other liabilities	-	517	8,434	-	78,875	87,826
Total liabilities	186,405	1,456,151	469,904	-	403,769	2,516,229
Unrestricted investment accounts	-	-	-	-	1,945	1,945
Off-Balance sheet items						
Restricted investment accounts	-	-	72,612	-	1,610	74,222
Commitments and guarantees	-	-	154,465	-	-	154,465

36 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(b) Geographic region

31 December 2009	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	8,693	319	-	933	-	229	**10,174**
Placements with financial and other institutions	454,966	-	-	-	-	-	**454,966**
Financing receivables	29,173	-	-	-	-	-	**29,173**
Investment in associates	376,424	-	-	-	-	-	**376,424**
Investment securities	253,387	43,808	47,572	-	1,632	3,000	**349,399**
Receivable from investment banking services	-	65,270	20,000	-	-	-	**85,270**
Other assets	246,734	53,739	36,457	-	-	-	**336,930**
Total assets	**1,369,377**	**158,136**	**104,029**	**933**	**1,632**	**3,229**	**1,642,336**
Liabilities							
Investors' funds	141,606	93,004	8,450	-	3,133	-	**246,193**
Placements from financial and other institutions	210,842	-	-	-	-	-	**210,842**
Financing liabilities	303,549	-	-	348,971	-	-	**652,520**
Liabilities directly associated with assets held-for-sale	-	-	-	-	-	-	**-**
Other liabilities	96,584	-	-	-	-	-	**96,584**
Total liabilities	**752,581**	**93,004**	**8,450**	**348,971**	**3,133**	**-**	**1,206,139**
Unrestricted investment accounts	2,875	-	-	-	-	-	**2,875**
Off-Balance sheet items							
Restricted investment accounts	18,877	-	-	-	31,165	-	**50,042**
Commitments and guarantees	169,737	30,613	-	-	-	-	**200,350**

Concentration by location for financial assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

36 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(b) Geographic region (continued)

31 December 2008	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	8,235	1,078	-	870	3,680	-	13,863
Placements with financial and other institutions	961,355	-	-	76,345	237,975	-	1,275,675
Financing assets	14,344	-	-	-	54,845	-	69,189
Assets held-for-sale	611,996	-	-	-	-	-	611,996
Investment in associates	409,779	-	-	-	-	-	409,779
Investment securities	354,989	34,734	48,547	-	6,867	3,000	448,137
Receivable from investment banking services	112	141,788	80,000	-	443	-	222,343
Other assets	369,213	64,630	-	209	-	13	434,065
Total assets	2,730,023	242,230	128,547	77,424	303,810	3,013	3,485,047
Liabilities							
Investors' funds	327,650	59,783	147,101	2,687	1,563	-	538,784
Placements from financial and other institutions	923,958	5,250	-	8,330	-	-	937,538
Financing liabilities	334,417	-	-	300,478	-	-	634,895
Liabilities directly associated with assets held-for-sale	317,186	-	-	-	-	-	317,186
Other liabilities	87,826	-	-	-	-	-	87,826
Total liabilities	1,991,037	65,033	147,101	311,495	1,563	-	2,516,229
Unrestricted investment accounts	1,398	543	4	-	-	-	1,945
Off-Balance sheet items							
Restricted investment accounts	23,646	-	-	-	50,576	-	74,222
Commitments and guarantees	104,465	50,000	-	-	-	-	154,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

37 OPERATING SEGMENTS

The Group is presenting segment information for the first time and comparative information for 2008 has been presented in line with the current year presentation.

The Group has two distinct operating segments, Development infrastructure and Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Development infrastructure :** This business unit primarily is involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Banking :** The Banking segment of the Group is focused on private equity, commercial and investment banking domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The commercial banking activities focuses on establish new banks in the MENA region, and exploring external partnerships or acquisitions to extend GFH's capabilities. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions. This segment also includes the Group's investment in the water park.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Bank classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Bank does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 36 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

37 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

2009	Development infrastructure	Banking	Unallocated	Total
Segment revenue	54,056	(7,924)	16,043	**62,175**
Segment expenses	542,612	210,600	37,342	**790,554**
Segment result	(488,556)	(218,524)	(21,299)	**(728,379)**
Segment assets	755,201	831,516	55,619	**1,642,336**
Segment liabilities	232,447	114,078	859,614	**1,206,139**
Other material items:				
Finance income	-	-	5,265	**5,265**
Finance cost	8,614	-	30,694	**39,578**
Share of loss of associates	-	(171)	-	**(171)**
Depreciation	-	-	6,339	**6,339**
Provision for impairment	507,795	147,803	-	**655,598**
Capital expenditure	-	-	3,559	**3,559**
Investment in associates (equity accounted)	175,000	201,424	-	**376,424**
Off-balance sheet commitments	200,350	-	-	**200,350**
Restricted investment accounts	49,371	671	-	**50,042**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

37 OPERATING SEGMENTS (continued)

2008	Development infrastructure	Banking	Unallocated	Total
Segment revenue	404,282	182,652	30,652	617,586
Segment expenses	57,114	101,678	166,909	325,701
Segment result	347,168	80,974	(136,257)	291,885
Segment assets	1,499,145	620,273	1,365,629	3,485,047
Segment liabilities	796,627	818,580	901,022	2,516,229
Other material items:				
Finance income	-	-	31,088	31,088
Finance cost	9,212	-	54,295	63,507
Share of profit of associates	50,000	44,968	-	94,968
Provision for impairment	22,040	17,672	-	39,712
Depreciation	-	-	4,129	4,129
Capital expenditure	-	-	21,333	21,333
Investment associates (equity accounted)	175,000	234,779	-	409,779
Off-balance sheet commitments	154,465	-	-	154,465
Restricted investment accounts	72,612	1,610	-	74,222

38 FINANCIAL INSTRUMENTS

a) ACCOUNTING CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of the financial instruments of the Group is as given below:

31 December 2009	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Other amortised cost	Total carrying value
Assets					
Cash and bank balances	-	-	10,174	-	**10,174**
Placements with financial and other institutions	-	-	454,966	-	**454,966**
Financing receivables	-	-	29,173	-	**29,173**
Investment securities	33,976	315,423	-	-	**349,399**
Receivable from investment banking services	-	-	85,270	-	**85,270**
Other financial assets	-	-	287,542	-	**287,542**
Total financial assets	**33,976**	**315,423**	**867,125**	**-**	**1,216,524**
Liabilities					
Investors' funds	-	-	-	246,193	**246,193**
Placements from financial and other institutions	-	-	-	210,842	**210,842**
Financing liabilities	-	-	-	652,520	**652,520**
Other financial liabilities	-	-	-	95,812	**95,812**
Total financial liabilities	**-**	**-**	**-**	**1,205,367**	**1,205,367**
Unrestricted investment accounts	**-**	**-**	**-**	2,875	**2,875**

38 FINANCIAL INSTRUMENTS (continued)

a) CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

31 December 2008	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Other amortised cost	Total carrying value
Assets					
Cash and bank balances	-	-	13,863	-	13,863
Placements with financial and other institutions	-	-	1,275,675	-	1,275,675
Financing receivables	-	-	69,189	-	69,189
Investment securities	41,245	406,892	-	-	448,137
Receivable from investment banking services	-	-	222,343	-	222,343
Other financial assets	-	-	352,501	-	352,501
Total financial assets	41,245	406,892	1,933,571	-	2,381,708
Liabilities					
Investors' funds	-	-	-	538,784	538,784
Placements from financial and other institutions	-	-	-	937,538	937,538
Financing liabilities	-	-	-	634,895	634,895
Liabilities directly associated with assets held-for-sale	-	-	-	317,186	317,186
Other financial liabilities	-	-	-	86,916	86,916
Total financial liabilities	-	-	-	2,515,319	2,515,319
Unrestricted investment accounts	-	-	-	1,945	1,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

38 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than certain available-for-sale investments of US$ 311,133 thousand (2008: US$ 401,665 thousand) (note 9) and financing liabilities of US$ 152,640 thousand (2008: US$ 188,629 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their book values as at 31 December 2009.

Available-for-sale investment

Investments amounting to US$ 311,133 thousand (2008: US$ 401,665 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

Financing liabilities

	31 December 2009		31 December 2008	
	Carrying value	**Fair value**	Carrying value	Fair value
Sukuk	152,640	108,062	188,629	147,730

The fair value of the Sukuk has been determined based on quoted market prices.

c) FAIR VALUE HIERARCHY

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
- Investments designated at fair value through profit or loss	-	-	33,976	33,976
- Available-for-sale investments	4,290	-	-	4,290
	4,290	**-**	**33,976**	**38,266**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

38 FINANCIAL INSTRUMENTS (continued)

c) FAIR VALUE HIERARCHY (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2009
Balance at 1 January	41,245
Total gains or losses:	
- In profit or loss	(7,269)
- In other comprehensive income	-
Purchases	-
Settlements	-
Transfers into/ out of Level 3	-
Balance at 31 December	**33,976**

39 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2009	31 December 2008
Commitments to invest	30,613	31,562
Underwriting commitment	-	79,580
Un-drawn commitments to extend finance	-	20,000
Capital commitments	283	1,353

The Group has issued financial guarantees and credit enhancements of US$ 169,454 thousand (2008: US$ 21,970 thousand) to financial institutions and other lenders to secure credit facility arrangements for projects managed by the Group. The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 150 million (2008: US$ 170 million). In the opinion of the management, based on their assessment of expected cash flows from the underlying projects, the financing commitment and financial guarantees are not expected to be drawn down. In the event of a drawdown, the Group would have a charge over the assets of the project.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2009 due to the performance of any of its projects.

Contingencies

The Group has contingent claims arising from the decision to not proceed with a project development agreement during the year. The Group is currently negotiating with the counter party for an amicable settlement. While liability is not admitted, if defense against the action is unsuccessful, the claim and associated costs could amount to approximately US$ 36 million. The management do not expect any significant liability to arise on final closure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, financing receivables, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:

- credit and investment risks;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Group Risk Operations reports to the Board Risk Management Committee.

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has established an Executive Risk Management Committee, which is responsible for developing and monitoring the Bank's risk management policies in the specified areas. The committee also continuously monitors consistent implementation of the Board approved policies in the Bank and reports deviations if any to the Risk Management Committee of the Board. The committee consists of heads of business and other functional units in the Bank and reports regularly to the Risk Management Committee of the Board. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Risk Management Committee is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board Risk Management Committee. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The report also provides comments as to how risk factors are being addressed by the Group and the change in risk rating from the previous quarter. The Liquidity Risk Report measure the Bank's liquidity risk profile against policy guidelines. An additional report is prepared along with the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial and other institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.
The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Bank has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are also allocated to the Management Investment and Credit Committee. Larger facilities require approval by BIC and the Board of Directors based on the authority limits structure of the Bank.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews by Group RMD.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to BIC on the exposure limits.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

40 FINANCIAL RISK MANAGEMENT (continued)

The Group's maximum exposure to risk at 31 December 2009 is as follows:

Exposure to credit risk

31 December 2009	Bank balances	Placement with financial and other institutions	Financing receivables	Receivable from investment banking services	Other financial assets
Neither past due nor impaired					
Carrying amount	**10,166**	**454,966**	**29,173**	**-**	**187,460**
Past due but not impaired					
Past due comprises					
30 – 60 days	-	-	-	-	-
60 – 90 days	-	-	-	-	-
90 – 180 days	-	-	-	-	-
Above 180 days	-	-	-	40,540	-
Carrying amount – Past due but not impaired	-	-	-	**40,540**	-
Individually impaired					
Gross amount	-	-	62,650	131,376	483,164
Allowance for impairment	-	-	62,650	86,646	383,082
Carrying amount – Individually impaired	**-**	**-**	**-**	**44,730**	**100,082**
Carrying amount	**10,166**	**454,966**	**29,173**	**85,270**	**287,542**

40 FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk (continued)

31 December 2008	Bank balances	Placement with financial and other institutions	Financing receivables	Receivable from investment banking services	Other financial assets
Neither past due nor impaired					
Carrying amount	13,855	1,275,675	14,344	120,000	399,078
Past due but not impaired					
Past due comprises					
30 – 60 days	-	-	-	-	-
60 – 90 days	-	-	-	54,000	-
90 – 180 days	-	-	-	15,000	-
Above 180 days	-	-	-	33,343	10,000
Carrying amount – Past due but not impaired	-	-	-	102,343	10,000
Individually impaired					
Gross amount	-	-	71,345	3,076	12,497
Allowance for impairment	-	-	(16,500)	(3,076)	(12,497)
Carrying amount – Individually impaired	-	-	54,845	-	-
Carrying amount	13,855	1,275,675	69,189	222,343	409,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 *FINANCIAL RISK MANAGEMENT (continued)*

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all or a portion of payments due according to the contractual terms of the receivables agreement(s). These exposures are graded "Impaired" in the Group's internal credit risk grading system.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

The movement in the impairment allowances for assets-held-for sale, investment in associates and investment securities are given in note 7, note 8 and note 9 respectively. The movement in impairment allowance for other financial assets are as given below:

2009	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**	**Total**
At 1 January	16,500	-	3,076	15,786	**35,362**
Provision for impairment during the year	53,650	77,382	83,570	22,467	**237,069**
At 31 December	**70,150**	**77,382**	**86,646**	**38,523**	**272,431**

2008	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January	-	-	3,076	9,785	12,861
Provision for impairment during the year	16,500	-	-	6,001	22,501
At 31 December	16,500	-	3,076	15,786	35,362

Receivables with renegotiated terms

During the year, the Bank has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects of US$ 147 million (2008: US$ 109 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

40 FINANCIAL RISK MANAGEMENT (continued)

Past due but not impaired exposures

Receivable from investment banking services
The Bank recognises investment banking income based on underwriting commitments and placements with external investors. These placements are made with sophisticated individual investors, corporates and financial institutions. The Bank believes that the unimpaired income receivable from investment banking services is not impaired based on the stage of collection of the amounts.

Write-off policy
The Group writes off a receivable (and any related allowances for impairment losses) when it is determined that the receivables are uncollectible and after obtaining approval from the CBB where requried. This determination is reached after considering information such as the occurrence of significant changes in the payee / issuer's financial position such that the payee / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. No balances have been written off during the year (2008: US$ Nil).

Concentration risk
Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 36.

b) Liquidity risk
Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. It is our policy to keep a large part of our assets in highly liquid short-term instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 35 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows						
31 December 2009	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	94,997	60,029	41,301	51,589	-	**247,917**	**246,193**
Placements from financial and other institutions	211,173	-	-	-	-	**211,173**	**210,842**
Financing liabilities	355,083	2,680	5,243	348,599	-	**711,605**	**652,520**
Other financial liabilities	95,812	-	-	-	-	**95,812**	**95,812**
Total financial liabilities	757,065	62,709	46,544	400,188	-	**1,266,507**	**1,205,367**
Unrestricted investment accounts	2,875	-	-	-	-	**2,875**	**2,875**
Off-balance sheet items							
Commitments and financial guarantees	33,709	59,689	75,783	35,613	-	**204,884**	-

To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, placements with financial and other institutions and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. At 31 December 2009, the Group's current contractual liabilities exceeded its liquid assets.

The Group strengthened its liquidity position in 2009 by undertaking a rights issue, issue of convertible murabaha and asset sales. The Group plans to further strengthen its liquidity in 2010 by undertaking a wider asset sale program that will provide the necessary additional liquidity needed over the next twelve months. Subsequent to the year end, the Group has settled financing liabilities amounting to US$ 200 million on its due date and has refinanced US$ 100 million repayable in 6 months. The Group is also in discussions regarding the tenor of its US$ 100 million wakala facility due in 2010 (US$50 million) and 2011 (US$50 million). These initiatives will further improve the liquidity profile of the Group. The Bank is confident of its ability to meet its future contractual liabilities when due.

Further, the Group has a pipeline of steady revenues and is undertaking cost reduction exercises that would improve its operating cash flows. The Group is also evaluating other options to arrange liquidity and strengthen its position over the next twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2008	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	511,559	-	-	27,225	-	538,784	538,784
Placements from financial and other institutions	941,252	2,250	-	-	-	943,502	937,538
Financing liabilities	8,462	8,461	16,923	497,279	189,422	720,547	634,895
Liabilities directly associated with assets held-for-sale	37,922	37,922	75,844	165,498	-	317,186	317,186
Other financial liabilities	69,183	-	4,883	12,850	-	86,916	86,916
Total financial liabilities	1,568,378	48,633	97,650	702,852	189,422	2,606,935	2,515,319
Unrestricted investment accounts	1,945	-	-	-	-	1,945	1,945
Off-balance sheet items							
Commitments and financial guarantees	20,000	-	-	134,465	-	154,465	-

Measures of liquidity

Our three primary measures of liquidity are stock of liquid assets, surplus cash capital and net funding requirements. For this purpose liquid assets include cash and cash equivalents and placements with financial and other institutions. Cash capital is defined as the aggregate of the Banks capital base and inter-bank liabilities maturing later than 12 months and any undrawn committed bank facilities. Cash capital is used to fund long term funding requirements including investment in associates, investment securities and fixed assets.

Details of the reported Group ratio of liquid assets and surplus cash capital at the reporting date and during the reporting period were as follows:

	Liquid asset / Total asset		Surplus cash capital	
	2009	2008	**2009**	2008
At 31 December	29.18%	37.02%	1.116	1.965
Average for the period	25.98%	37.49%	1.088	2.333
Maximum for the period	29.18%	40.74%	1.184	2.701
Minimum for the period	20.05%	33.60%	1.017	1.965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Bank is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Asset Liability Committee (ALCO). RMD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and the Board) and for the day-to-day review of their implementation.

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2009	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial and other institutions	454,966	-	-	-	-	**454,966**
Financing receivables	14,173	15,000	-	-	-	**29,173**
Total assets	**469,139**	**15,000**	**-**	**-**	**-**	**484,139**
Liabilities						
Investors' funds	94,831	59,820	41,014	50,528	-	**246,193**
Placements from financial and other institutions	210,842	-	-	-	-	**210,842**
Financing liabilities	351,020	-	-	301,500	-	**652,520**
Total liabilities	**656,693**	**59,820**	**41,014**	**352,028**	**-**	**1,109,555**
Unrestricted investment accounts	**2,875**	**-**	**-**	**-**	**-**	**2,875**
Profit rate sensitivity gap	**(190,429)**	**(44,820)**	**(41,014)**	**(352,028)**	**-**	**(628,291)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

31 December 2008	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial and other institutions	1,275,675	-	-	-	-	1,275,675
Financing assets	-	-	-	69,189	-	69,189
Total assets	1,275,675	-	-	69,189	-	1,344,864
Liabilities						
Investors' funds	511,559	-	-	27,225	-	538,784
Placements from financial and other institutions	941,252	2,250	-	-	-	943,502
Financing liabilities	8,462	8,462	16,923	497,280	189,423	720,550
Total liabilities	1,461,273	10,712	16,923	524,505	189,423	2,202,836
Unrestricted investment accounts	1,945	-	-	-	-	1,945
Profit rate sensitivity gap	(187,543)	(10,712)	(16,923)	(455,316)	(189,423)	(859,917)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2009**	2008
At 31 December	± 6,283	± 8,455
Average for the year	± 8,258	± 7,142
Maximum for the year	± 9,677	± 8,455
Minimum for the year	± 6,283	± 5,812

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

The effective profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2009	2008
Placements with financial and other institutions	0.83%	2.68%
Financing receivables	5.38%	3.34%
Investors' funds	0.70%	2.51%
Placements from financial and other institutions	2.13%	2.78%
Financing liabilities	4.38%	5.09%
Unrestricted investments	0.76%	2.89%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December:

	2009 US$ Equivalent	2008 US$ Equivalent
Sterling Pounds	2,489	1,325
Euros	348	7,357
Jordanian Dinar	4,905	8,171
Kuwaiti Dinars	58,968	61,999
Other GCC Currencies (*)	523,831	519,809

(*) These currencies are pegged to the US Dollar.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2009 US$ Equivalent	2008 US$ Equivalent
Sterling Pounds	± 124	± 66
Euros	± 17	± 368
Jordanian Dinar	± 245	± 409
Kuwaiti Dinars	± 2,948	± 3,100

40 FINANCIAL RISK MANAGEMENT (continued)

Exposure to foreign exchange risk (continued)

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Bank. The Group's available-for-sale equity securities carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of available-for-sale investments carried at cost are included in note 3. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment Committee.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Bank. The Bank has finalized the risk and control assessments for majority of its departments and has identified the important Key Risk Indicators.

41 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is based on the Basel II and IFSB framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework. During 2009, the Bank was in compliance with the capital limits set by the regulator for the Bank.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

41 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital position at 31 December was as follows:

	2009	2008
Total risk weighted assets	**2,955,068**	3,709,185
Tier 1 capital	381,528	598,111
Tier 2 capital	-	-
Total regulatory capital base	**381,528**	598,111
Total regulatory capital expressed as a percentage of total risk weighted assets	**12.91%**	16.13%

The capital adequacy ratio as at 31 December 2009 was too close to the minimum regulatory capital requirement of 12% which restricts the Group's ability to absorb further losses or undertake additional exposures. Based on the planned asset sales program and operating cash flow projections coupled with the debt repayments and conversion of a portion of the convertible murabaha to equity subsequent to the year end, the Group expects to improve its risk weighted assets profile and capital adequacy ratio.

42 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION

The following standards and interpretations have been issued by standard setters during 2009 and are mandatory for the Group's accounting for annual periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

a) International Financial Reporting Standards and interpretations issued by the IASB

- **IFRS 3, 'Business combinations'**
  Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

  The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- **IAS 27 Consolidated and Separate Financial Statements (amended 2008)**
  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2009 US$ 000's

42 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION (continued)

a) International Financial Reporting Standards and interpretations issued by the IASB (continued)

- **IFRIC 17, 'Distribution of non-cash assets to owners'**
  IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

- **IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'**
  IFRIC 19 was issued in November 2009. The interpretation addresses the issues in respect of the accounting by the debtor in a debt for equity swap transaction. An entity should measure equity instruments issued to a creditor to extinguish all or part of a financial liability at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The equity instruments are initially measured when the financial liability (or part of that liability) is extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of the equity instruments issued should be recognised in profit or loss. The application of IFRIC 19 has no impact on the financial statements of the Group.

- **IFRS 9 'Financial Instruments'**
  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

  The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

42 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION (continued)

- **Improvements to IFRSs**
  Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

b) Financial Accounting Standards issued by AAOIFI

- FAS 23 Consolidation (effective for annual periods beginning on or after 1 January 2010); and
- FAS 24 Investment in Associates (effective for annual periods beginning on or after 1 January 2010).

The requirements of these standards are largely in line with the current policies followed by the Group for accounting of subsidiaries and associates and the adoption of these standards are not expected to have any material impact on the consolidated financial statements.

The Group had not early adopted any new or amended standards in 2009.

43 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.