

Notes to the Consolidated Financial Statements

At 31 December 2009

1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain and Kuwait Stock Exchanges. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

The principal activities of the Bank and its subsidiaries [the Group] comprise investment and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2009 KIPCO owned 95.22% of the Bank's outstanding shares (2008: 91.72%).

These consolidated financial statements were authorised for issue by the Board of Directors on 24 February 2010.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

The consolidated financial statements have been presented in US Dollars (US\$) being the functional currency of the Group and rounded to the nearest US\$ thousands except when otherwise indicated.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations during the year:

IFRS 2 Share-based payments (Revised) - Vesting Conditions and Cancellations

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level hierarchy, by class, for all financial instruments recognised at the fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the consolidated financial position or the comprehensive income of the Group.

Comparative information is not presented as it is not required by the transition provisions of the amendment.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 'Segment Reporting' and is effective for annual periods commencing 1 January 2009. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting to the chief operating decision-maker. The application of IFRS 8 did not have any material effect for the Group and has no impact on segment disclosure and on the measurement bases within segments.



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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements (Revised)

The revised standard, effective for financial years beginning on or after 1 January 2009, requires changes in equity arising from transactions with shareholders of the Bank in their capacity as owners (i.e. owner changes in equity) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity. Comparative information has been restated so that it also conforms with the revised standard. Since this change only impacts the presentation of the consolidated financial statements, there is no impact on retained earnings.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments are effective for financial years beginning on or after 1 January 2009 and did not have any material impact on the consolidated financial position or the comprehensive income of the Group.

Amendments to IAS 40 Investment Property: Property under Construction or Development for Future use as Investment Property

The standard has been amended to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until fair value can be determined or construction is complete. The adoption of these amendments are effective for financial years beginning on or after 1 January 2009 and did not have any material impact on the consolidated financial position or the comprehensive income of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is effective for financial years beginning on or after 1 October 2008. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation does not have a material impact on the Group's consolidated financial statements.

Future changes in accounting policies

The Group has not elected to early adopt the following standards and amendments:

IFRS 2 Share-based Payments (Revised) - Cash Settled Share Based Transactions

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. Application of the amended standard will become mandatory for the Group's 2010 financial statements.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Group's 2010 financial statements.

IFRS 9 Financial Instruments Part 1: Classification and Measurement

IFRS 9 was issued by the IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) 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. 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 the statement of income. 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 the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to the statement of income.

Adoption of IFRS 9 is mandatory from 1 January 2013, but earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk in particular situations. Adoption of this amendment is effective for financial years beginning on or after 1 July 2009. Application of the amendment will become mandatory for the Group's 2010 financial statements. The adoption of this amendment will not have any material effects for the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation explains 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. IFRIC 17 was issued in November 2008 and its adoption is effective for financial years beginning on or after 1 July 2009. Application of this interpretation will become mandatory for the Group's 2010 financial statements. The adoption of this interpretation will not have any material effects for the Group.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group holds the majority of the voting rights and has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of income and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisition of non-controlling interests and partial/deemed disposals of subsidiaries are accounted for using the parent entity extension method, whereby:

- the difference between the consideration and the book value of the share of net assets is recognised as goodwill;
- in the case of partial disposals, the difference between the proceeds received and the book value of the share of net assets sold is recognised as profit or loss in the consolidated statement of income; and
- in the case of deemed partial disposals resulting from a capital increase, the difference between the book value of the share of net assets in the subsidiary after and before the capital increase is recognised as profit or loss in the consolidated statement of income.

The principal subsidiaries of the Bank are as follows:

<i>Name of the subsidiary</i>	Country of incorporation	Effective ownership as at 31 December 2009	Effective ownership as at 31 December 2008	Year of incorporation
<i>Held directly</i>				
Gulf Bank Algeria (formerly Algeria Gulf Bank)*	Algeria	-	83%	2003
KIPCO Asset Management Company [KAMCO]	Kuwait	86%	75%	1998
Tunis International Bank [TIB]**	Tunisia	77%	77%	1982
United Gulf Bank Securities Company	Bahrain	96%	93%	1998
United Gulf Financial Services Company	Qatar	-	90%	2006
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	85%	83%	2008

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation (continued)

<i>Name of the subsidiary (continued)</i>	Country of incorporation	Effective ownership as at 31 December 2009	Effective ownership as at 31 December 2008	Year of incorporation
Held through KAMCO				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Advantage Management Consulting Company K.S.C. (Closed)	Kuwait	-	58%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Company W.L.L.	Kuwait	100%	100%	2005
Al Rawabi International Real Estate Company W.L.L.	Kuwait	100%	-	2009
First Homes Real Estate Company W.L.L.	Kuwait	100%	-	2009

* Classified as held for sale at 31 December 2008 and transferred during the year. Refer to note 11 for details.

** Classified as held for sale as at 31 December 2008 and 2009. Refer to note 11 for details.

Investments in associates and joint venture accounted for under the equity method

Associated companies

An associated company (or associate) is one in which the Group exercises significant influence (but not control) over its operations, generally accompanying, directly or indirectly, a holding between 20% and 50% of the voting power of the investee and is accounted for by the equity method.

Under the equity method, the investment in the associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises in the consolidated statement of income its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commences until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in its comprehensive income that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in the statement of comprehensive income.

Unrealised gains and losses resulting from transactions with an associate are eliminated to the extent of the Group's share in the associate.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever the impairment requirements of IAS 36 indicate that investment in an associate may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is included in the carrying amount of an investment in associate and, therefore, is not separately tested for impairment.

Joint venture

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with another entity that is subject to joint control. The joint venture is accounted for using the equity method of accounting. Under the equity method, the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The statement of income reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in the other comprehensive income of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Unrealised profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture.

The reporting dates of the associates, joint venture and the Group are identical and the associates' and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Notes to the Consolidated Financial Statements

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate or a joint venture is included in the carrying amount of the respective associate or joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal group classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from the discontinued operations are reported separately from income and expenses relating to continuing operations down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise two categories: 'investments held for trading' and 'investments designated at fair value through statement of income'.

Investments held for trading

All investments held for trading are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Investments designated at fair value through statement of income

These are investments that the Group designated at fair value through statement of income which are managed and their performance evaluated on fair value basis in accordance with the Group's investment strategy. These investments are initially recognised at fair value. Transaction costs are immediately expensed in the statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale
- Loans and receivables

Held to maturity

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, plus directly attributable transaction costs.



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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Held to maturity (continued)

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the statement of income.

Investments available-for-sale

Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, plus directly attributable transaction costs.

After initial recognition, investments available-for-sale are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income.

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- (a) those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through statement of income;
- (b) those that the Group, upon initial recognition, designates as available-for-sale; or
- (c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently loans and receivables are carried at amortised cost, less any amount written off, and net of any provision for impairment.

Derivatives and hedge accounting

The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Notes to the Consolidated Financial Statements

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedge

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income.

Cash flow hedge

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

Derivatives are stated at fair values and carried as assets when their fair value is positive and as liabilities when their fair value is negative. For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 20 years on all property and equipment other than freehold land which is deemed to have an indefinite life. Expenditure for maintenance and repairs is expensed as incurred.

Financial liabilities

Financial liabilities comprise due to banks and other financial institutions, deposits from customers, loans payable, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Bank which are reacquired by the Bank or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and time deposits (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.



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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the date of statement of financial position.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank's obligations are limited to the amount contributed to the scheme.

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP or the plan). Under the terms of the plan, share options are granted to permanent employees, which are exercisable in a future period. The fair value of the options is recognised as an expense over the vesting period with a corresponding credit to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

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

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2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Investments available-for-sale

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.



Notes to the Consolidated Financial Statements

At 31 December 2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on the last published bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 31.

Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in the consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of available-for-sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Recognition of income and expenses

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Notes to the Consolidated Financial Statements

At 31 December 2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

Dividend income is recognised when the Group's right to receive the dividend is established.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Acting Chief Executive Officer of the Bank as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following judgments and estimates in determining the amounts recognised in the consolidated financial statements:

Going concern

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held to maturity or available-for-sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

Securities which are eligible for reclassification in accordance with IAS 39 and the Group has an intention and ability to hold for a foreseeable future are reclassified as non-trading investments. Securities which are not held with the intent of sale in the near term and are eligible per IAS 39 are also reclassified as non-trading investments. An analysis of reclassified assets is disclosed in note 5.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.



Notes to the Consolidated Financial Statements

At 31 December 2009

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on loans and receivables

The Group reviews its loans and receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and receivables

In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same; and
- other valuation methods (note 31).

Reclassification of financial assets

Effective from 1 July 2008, the Group may reclassify, in certain circumstances, non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through statement of income category after initial recognition. An analysis of reclassified assets is disclosed in note 5.

Notes to the Consolidated Financial Statements

At 31 December 2009

3 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
31 December 2009					
Demand and call deposits with banks	-	-	-	20,328	20,328
Time deposits with banks	-	-	-	176,203	176,203
Investments carried at fair value through statement of income	24,861	130,454	-	-	155,315
Non-trading investments	-	-	379,665	335,656	715,321
Loans and receivables	-	-	-	52,595	52,595
Other assets	-	-	-	42,527	42,527
Total financial assets	24,861	130,454	379,665	627,309	1,162,289
Due to banks and other financial institutions	-	-	-	458,347	458,347
Deposits from customers	-	-	-	227,183	227,183
Loans payable	-	-	-	500,986	500,986
Other liabilities	-	-	-	72,002	72,002
Bonds	-	-	-	68,888	68,888
Subordinated debt	-	-	-	100,000	100,000
Total financial liabilities	-	-	-	1,427,406	1,427,406

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
31 December 2008					
Demand and call deposits with banks	-	-	-	27,418	27,418
Time deposits with banks	-	-	-	79,103	79,103
Investments carried at fair value through statement of income	48,466	196,698	-	-	245,164
Non-trading investments	-	-	528,985	349,023	878,008
Loans and receivables	-	-	-	7,770	7,770
Other assets	-	-	-	69,312	69,312
Total financial assets	48,466	196,698	528,985	532,626	1,306,775
Due to banks and other financial institutions	-	-	-	497,795	497,795
Deposits from customers	-	-	-	61,039	61,039
Loans payable	-	-	-	588,070	588,070
Other liabilities	-	-	-	65,552	65,552
Bonds	-	-	-	71,630	71,630
Subordinated debt	-	-	-	100,000	100,000
Total financial liabilities	-	-	-	1,384,086	1,384,086

Notes to the Consolidated Financial Statements

At 31 December 2009

4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2009 US\$ 000	2008 US\$ 000
Investments held for trading		
Quoted equities	24,861	48,466
Investments designated at fair value through statement of income		
Managed funds	130,454	196,698
	155,315	245,164

Managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

5 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2009 US\$ 000	2008 US\$ 000
Quoted		
Equities	67,475	88,317
Unquoted		
Equities	104,139	198,693
Real estate managed funds	12,339	20,203
Other managed funds	185,140	210,816
Debt securities	346,228	359,979
Total unquoted	647,846	789,691
	715,321	878,008

In October 2008, the International Accounting Standards Board [IASB] issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from "held for trading" category to the "available-for-sale" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments were effective retrospective from 1 July 2008.

As per the amendments, the Group reclassified certain financial assets from "held for trading" category to "available-for-sale" category. The assets were reclassified with retrospective effect as on 1 July 2008. The carrying value of these financial assets, as at date of reclassification, was US\$ 19,082 thousand.

The carrying values and fair values of the financial assets reclassified are as follows:

	2009 US\$ 000	2008 US\$ 000
Carrying value and fair value as at 31 December	12,968	13,171

Fair value loss that would have been recognised in the consolidated statement of income for the period from the date of reclassification to 31 December 2009 had the financial assets not been reclassified amounts to US\$ 3,960 thousand (six month period ended 31 December 2008: US\$ 3,757 thousand).

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes upto 10% in various geographically and sectorally dispersed companies, amounting to US\$ 77,843 thousand (2008: US\$ 161,726 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable.

During the year impairment losses of US\$ 10,247 thousand (2008: US\$ 56,651 thousand) have been recognised against non-trading investments.

Notes to the Consolidated Financial Statements

At 31 December 2009

6 LOANS AND RECEIVABLES

	2009 US\$ 000	2008 US\$ 000
Commercial loans	55,112	10,499
Overdrafts	478	-
Staff loans	2,163	2,466
	57,753	12,965
Less: Provision for impairment	(5,158)	(5,195)
	52,595	7,770

The movements in the provision for impairment are as follows:

	2009 US\$ 000	2008 US\$ 000
At 1 January	5,195	13,280
Relating to assets held for sale	-	(8,940)
Charge for the year	123	1,000
Write backs	(234)	(891)
Other adjustments	74	746
At 31 December	5,158	5,195

The majority of the provision for impairment relates to the commercial loans:

	2009 US\$ 000	2008 US\$ 000
Individual impairment	4,009	4,169
Collective impairment	1,149	1,026
	5,158	5,195
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,009	4,169

7 OTHER ASSETS

	2009 US\$ 000	2008 US\$ 000
Due from customers	25,160	19,730
Accounts receivable	4,911	42,864
Prepayments	3,676	4,516
Interest receivable	310	152
Others	12,146	6,566
	46,203	73,828

Due from customers is stated net of provision of US\$ 8,162 thousand (2008: US\$ 9,682 thousand). The net write back for the year amounted to US\$ 1,150 thousand (2008: net write back US\$ 93 thousand).

Notes to the Consolidated Financial Statements

At 31 December 2009

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD

Investments in associates and joint venture

		Carrying value 2009 US\$ 000	Ownership % 2009 US\$ 000	Carrying value 2008 US\$ 000	Ownership % 2008 US\$ 000	
a)	Al-Dhiyafa Holding Company K.S.C (closed)	Hotel and tourism	54,025	31	49,130	27
b)	Al Sharq Financial Brokerage Company	Brokerage and investment business	19,621	20	21,274	20
c)	Dhow Development Company	Real estate	26	20	-	20
d)	Kuwait Education Fund	Education	5,612	31	6,722	31
e)	Kuwait Private Equity Opportunities Fund	Private equity fund	15,054	45	17,748	45
f)	Manafae Investment Company	Islamic investment	28,289	31	25,558	26
g)	North Africa Holding Company	Investments	63,021	37	41,455	23
h)	Royal Capital Company P.S.C.	Asset management and financial services	35,884	44	35,634	44
i)	SSH Dar International W.L.L.	Architectural consulting services	2,124	29	1,607	29
j)	Syria Gulf Bank	Commercial banking	15,800	28	15,767	28
k)	United Real Estate Company- Syria	Real estate	2,865	40	108	40
l)	United Networks Company	Telecommunication	12,831	28	13,364	28
m)	United Real Estate Company- Jordan	Real estate	27,251	47	15,843	27
n)	United Industries Company	Industrial and manufacturing	100,671	44	114,242	45
o)	United Health Care Company	Health services	74,552	22	64,178	20
p)	United Real Estate Company	Real estate	172,860	30	181,122	30
q)	United Universal Real Estate- Company	Real estate	625	20	725	20
r)	Millennium Finance Corporation	Islamic investment	-	-	21,703	33
s)	Millennium Private Equity Limited	Fund management	16,741	50	-	-
			647,852		626,180	

Summarised financial information of the Group's investments in associates and joint ventures is set out below:

	2009 US\$ 000	2008 US\$ 000
Total assets	3,170,128	3,433,478
Total liabilities	(1,376,769)	(1,508,992)
Net assets	1,793,359	1,924,486
Revenue	253,468	160,045
Profit (loss) for the year	(2)	(26,517)

Notes to the Consolidated Financial Statements

At 31 December 2009

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD (continued)

Investments in associates and joint venture (continued)

- a) Al-Dhiyafa Holding Company K.S.C. (Closed) is a closed company incorporated in the State of Kuwait during 2005. The Bank directly owns 21% (2008: 17%) of the associate and indirectly owns additional 10% (2008: 10%) interest through its subsidiaries KAMCO and TIB.
- b) Al Sharq Financial Brokerage Company is a closed company incorporated in the State of Kuwait during 2005. The Bank directly owns 15% (2008: 15%) of the associate and indirectly owns additional 5% (2008: 5%) interest through its subsidiary KAMCO.
- d) Kuwait Education Fund is a fund with a variable capital of KWD 50 million. The Bank directly owns 14% (2008: 14%) of the associate and indirectly owns additional 17% (2008: 17%) interest through its subsidiary KAMCO.
- e) The Bank directly owns 15% (2008: 15%) of Kuwait Private Equity Opportunities Fund, a close ended fund incorporated in the State of Kuwait in 2004, and indirectly owns an additional 30% (2008: 30%) through its subsidiary KAMCO.
- f) The Bank directly owns nil (2008: 1%) of Manafae Investment Company and indirectly owns 31% (2008: 25%) through its subsidiaries KAMCO and TIB.
- g) The Bank directly owns 27% (2008: 15%) of North Africa Holding Company, a closed company incorporated in the State of Kuwait in 2006, and indirectly owns an additional 10% (2008: 8%) through its subsidiary KAMCO.
- h) The Bank directly owns 18% (2008: 18%) of Royal Capital Company, a closed company incorporated in the United Arab Emirates in 2007, and indirectly owns an additional 26% (2008: 26%) through its subsidiaries KAMCO and TIB.
- j) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly own 28% (2008: 28%) of SGB.
- k) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic in 2008. The Bank directly owns 20% (2008: 20%) of the associate and indirectly owns additional 20% (2008: 20%) interest through its subsidiary KAMCO.
- l) The Bank directly owns 20% (2008: 20%) of United Networks Company, a closed company incorporated in the State of Kuwait in 2001, and indirectly owns an additional 8% (2008: 8%) through its subsidiary KAMCO.
- m) The Bank directly owns 37% (2008: 17%) of United Real Estate Company Jordan, a closed company incorporated in Jordan in 2006, and indirectly owns an additional 10% (2008: 10%) through its subsidiary KAMCO.
- n) The Bank indirectly owns 44% (2008: 45%) of United Industries Company, which is a company incorporated in the State of Kuwait in 1979 and listed on the Kuwait Stock Exchange, through its subsidiary KAMCO.
- o) At 31 December 2009, the Bank indirectly owns 22% (2008: 20%) interest in United Health Care Company through its subsidiary KAMCO.
- p) United Real Estate Company (URC) is a company listed on the Kuwait Stock Exchange. The Bank directly owns 30% (2008: 30%) of URC.
- r)&s) During the year the Group acquired a 50% stake in Millennium Private Equity Limited (MPE) through a share swap of Millennium Finance Corporation Limited. MPE is a jointly controlled company incorporated in United Arab Emirates and is engaged in managing private equity funds.

c),h)&q) These companies are owned through the Bank's subsidiary KAMCO and are incorporated in the State of Kuwait.

Investments in associates include quoted associates with a carrying value of US\$ 273,532 thousand (2008: US\$ 362,900 thousand) having a quoted market price of US\$ 95,700 thousand (2008: US\$ 152,900 thousand). In accordance with IAS 36 requirement for impairment of assets, the group's carrying value of the associates did not exceed their recoverable amount (higher of fair value less cost to sell and value in use), accordingly no impairment was recognised.

In 2009, an impairment loss of US\$ 9,500 thousand (2008: nil) has been recognised against an unquoted associate.

Notes to the Consolidated Financial Statements

At 31 December 2009

9 INVESTMENT PROPERTIES

	2009 US\$ 000	2008 US\$ 000
Cost	28,234	23,210
Cumulative fair value adjustments	(1,440)	101
	<u>26,794</u>	<u>23,311</u>

The movements are as follows:

At 1 January	23,311	26,815
Additions	5,228	-
Disposals	(440)	(2,152)
Change in fair values (note 18)	(1,305)	(1,352)
At 31 December	<u>26,794</u>	<u>23,311</u>

Investment properties at 31 December consist of the following:

Buildings	19,831	15,638
Land	6,963	7,673
	<u>26,794</u>	<u>23,311</u>

Investment properties are stated at fair values, which have been determined based on independent valuations performed by external professional valuers at the year end.

10 GOODWILL

	2009 US\$ 000	2008 US\$ 000
At 1 January	46,573	11,409
Additions	10,410	38,074
Disposal	-	(1,830)
Foreign currency translation adjustments	(1,815)	(1,080)
At 31 December 2009	<u>55,168</u>	<u>46,573</u>

The goodwill is related to KAMCO (a subsidiary of UGB) which is part of one asset management and investment banking operating segment (note 26), and is considered as the cash generating unit for the Group. KAMCO is listed on the Kuwait Stock Exchange and the recoverable amount of KAMCO is determined with reference to its listed price per share as at the statement of financial position date. There was no impairment identified in 2009 or 2008.

Notes to the Consolidated Financial Statements

At 31 December 2009

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Pursuant to a master transfer agreement (MTA) with Burgan Bank, a related party, the Bank had, at 31 December 2008, classified its two subsidiaries Gulf Bank Algeria (AGB) and Tunis International Bank (TIB) and an associated company, Bank of Baghdad (BOB) as assets held for sale (disposal group) in accordance with International Financial Reporting Standard (IFRS) 5.

In March 2009, the Bank transferred the ownership of AGB and BOB to Burgan Bank, for a total consideration of US\$ 150,000 thousand.

The Group has a purchase commitment from Burgan Bank for the transfer of TIB. However the period required to complete the sale has been extended due to factors beyond the Group's control. The Group expects to conclude the transfer during 2010, subject to necessary regulatory approvals.

The major classes of assets and liabilities of the disposal group as at year end are as follows:

Subsidiaries

	2009 US\$ 000	2008 US\$ 000
ASSETS		
Demand and call deposits with banks	1,390	71,637
Time deposits with banks	258,741	257,565
Investments carried at fair value through statement of income	44	-
Non-trading investments	54,341	40,530
Loans and receivables	100,463	387,952
Other assets	1,031	12,303
Investments in associates accounted for under the equity method*	54,765	7,106
Property and equipment	3,162	15,198
	473,937	792,291
Investment in associate - Bank of Baghdad	-	67,598
Total assets of disposal group classified as held for sale	473,937	859,889
LIABILITIES		
Due to banks and other financial institutions	134,120	151,332
Deposits from customers	230,276	495,938
Loans payable	-	4,265
Other liabilities	6,572	18,251
Total liabilities of disposal group classified as held for sale	370,968	669,786

* Includes Gulf Bank Algeria, an associate held through TIB. The Bank directly owns 10% and indirectly owns 20% through TIB.

The fair value reserve and the foreign currency translation reserve of the Group reported in the consolidated statement of comprehensive income includes the fair value reserve and foreign currency translation reserve of the disposal group amounting to US\$ (2) million and nil respectively (2008: fair value reserve was US\$ (0.9) million and translation reserve was US\$ 7.3 million).

Notes to the Consolidated Financial Statements

At 31 December 2009

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

The results of disposal group are as follows:

	2009 US\$ 000	2008 US\$ 000
Investment income	4,066	2,973
Interest income	8,960	34,619
Fees and commissions	3,649	23,619
Foreign currency translation gains - net	3,589	5,051
Share of results of associates forming part of discontinued operations		
Gulf Bank Algeria	9,196	-
Bank of Baghdad	2,201	6,306
Jordan Kuwait Bank	-	17,995
Total income	31,661	90,563
Interest expense	(3,727)	(11,616)
Operating income before expenses and provisions	27,934	78,947
Salaries and benefits	(3,303)	(6,763)
General and administrative expenses	(4,266)	(14,949)
Operating income before provisions	20,365	57,235
Provision for doubtful loans, guarantees and other assets - net	(10,775)	(3,415)
Profit for the year from discontinued operations	9,590	53,820
Earnings per share from discontinued operations		
Basic earnings per share (US cents)	1.08	5.96
Diluted earnings per share (US cents)	1.08	5.91

The net cash flows of the disposal group subsidiaries are as follows:

	2009 US\$ 000	2008 US\$ 000
Net cash flows (used in) from:		
Operating activities	3,005	39,305
Investing activities	(6,150)	(9,307)
Financing activities	(5,000)	(11,671)
Net cash (used in) from disposal group	(8,145)	18,327

Notes to the Consolidated Financial Statements

At 31 December 2009

12 LOANS PAYABLE

31 December 2009	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
Floating rate loans				
<i>Maturing within one year</i>				
Loan due on 17 June 2010	KWD	-	26,160	26,160
Loan due on 14 January 2010	KWD	-	8,720	8,720
Loan due on 21 January 2010	KWD	-	6,976	6,976
Loan due on 31 May 2010	KWD	-	34,879	34,879
Loan due on 28 July 2010	US\$	-	25,014	25,014
Loan due on 20 December 2010	KWD	-	8,719	8,719
		-	110,468	110,468
<i>Maturing after one year</i>				
Loan due on 20 December 2011	US\$	-	27,904	27,904
Loan due on 2 April 2011	KWD	-	43,600	43,600
Loan due on 1 June 2013	SYP	-	4,014	4,014
Loan due on 2 April 2011	KWD	-	-	-
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 2 July 2012	US\$	200,000	-	200,000
		315,000	75,518	390,518
		315,000	185,986	500,986
<hr/>				
31 December 2008	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
Fixed rate loans				
<i>Maturing within one year</i>				
Loan due on 15 January 2009	KWD	-	10,880	10,880
Loan due on 08 January 2009	KWD	-	9,067	9,067
Loan due on 18 January 2009	KWD	-	12,694	12,694
Loan due on 3 February 2009	KWD	-	5,440	5,440
Loan due on 30 April 2009	KWD	-	3,627	3,627
Loan due on 30 April 2009	KWD	-	16,321	16,321
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	2,720	2,720
Loan due on 20 September 2009	KWD	-	3,627	3,627
		-	67,096	67,096
Floating rate loans				
<i>Maturing within one year</i>				
Loan due on 17 June 2009	KWD	-	27,202	27,202
Loan due on 20 June 2009	US\$	41,500	-	41,500
Loan due on 20 September 2009	KWD	-	29,015	29,015
Loan due on 30 November 2009	US\$	12,870	-	12,870
		54,370	56,217	110,587
<i>Maturing after one year</i>				
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 2 July 2012	US\$	200,000	-	200,000
Loan due on 28 July 2010	US\$	-	50,051	50,051
Loan due on 2 April 2011	KWD	-	45,336	45,336
		315,000	95,387	410,387
		369,370	218,700	588,070

* KWD represents Kuwaiti Dinar and SYP represents Syrian Pound.

Notes to the Consolidated Financial Statements

At 31 December 2009

13 BONDS

	2009 US\$ 000	2008 US\$ 000
Bonds - issued by a subsidiary	68,888	71,630

In June 2004, the Bank's subsidiary KAMCO issued floating rate bonds of Kuwaiti Dinar (KWD) 10 million (US\$ 34,880 thousand) (rate: Central Bank of Kuwait discount rate plus 2.75%) and fixed rate bonds of KWD 9.75 million (US\$ 34,008 thousand) (rate: 7.5%) each for a term of 5 years. In a meeting held on 25 May 2009, the bondholders unanimously agreed to extend the maturity of the floating rate bonds and fixed rate bonds from 21 June 2009 to 21 June 2011. Required regulatory approvals have been received with respect to the extension of the bonds.

14 SUBORDINATED DEBT

On 13 October 2006, the Bank issued floating rate notes amounting to US\$ 100 million for a term of 10 years maturing on 12 October 2016. For the first five years the notes carry interest at the rate of 1.8% per annum above the LIBOR for 3 month US dollar deposits and after 13 October 2011 the notes will carry interest at the rate of 2.7% per annum above LIBOR for 3 month US dollar deposits. The notes carry a call option exercisable by the Bank after 5 years from the date of issue to repurchase the notes at par value.

15 OTHER LIABILITIES

	2009 US\$ 000	2008 US\$ 000
Due to customers and other payables	25,313	11,026
Accrued expenses	20,487	21,563
Staff related payables	16,435	18,373
Interest payable	7,948	12,651
Dividends payable	1,819	1,939
	72,002	65,552

16 EQUITY

Share capital

The authorised share capital as of 31 December 2009 comprised 1 billion shares of US\$ 0.25 each (31 December 2008: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2009 comprised 830,776,277 shares of US\$ 0.25 each (31 December 2008: 824,930,155 shares of US\$ 0.25 each). The increase is due to exercise of share options by employees under the employee share option plan.

Treasury shares and treasury shares reserve

During the year, the Bank purchased no shares (2008: 14,180,953 shares) and sold no shares (2008: 4,000,000 shares). At the end of the year the Bank held 11,056,255 shares (31 December 2008: 11,056,255 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2009 is US\$ 13.1 million (31 December 2008: US\$ 16.9 million).

Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's employee share options plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Notes to the Consolidated Financial Statements

At 31 December 2009

16 EQUITY (continued)

General reserve

The Directors have approved a transfer of 10% (2008: 10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain (loss) arising from translating the financial statements of the Bank's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

Dividend paid and proposed

During the year, the Bank paid a final dividend for 2008 of US cents 18.50 per issued share (2007: US cents 16.25 per issued share) for a total amount of US\$ 150,664 thousand (2007: US\$ 132,520 thousand).

The Board of Directors has recommended to the Annual General Meeting (AGM) to be held on 29 March 2010 a cash dividend of US cents 1.25 (2008: US cents 18.50) per issued share of US cents 25 each. Dividend will be paid to the shareholders who hold the shares on the date of the AGM.

17 FAIR VALUE RESERVE

	2009 US\$ 000	2008 US\$ 000
Non-trading investments		
Balance at 1 January	15,244	52,405
Transferred to consolidated statement of income on sale related to continuing operations (note 18)	(39,989)	(23,975)
Transferred to consolidated statement of income on sale related to the disposal group	(1,010)	(1,707)
Transferred to consolidated statement of income on impairment (note 5)	10,247	56,651
Net movement in unrealised fair value during the year	(2,510)	(68,130)
Balance at 31 December	(18,018)	15,244
Cash flow hedge		
Balance at 1 January	(12,869)	339
Net movement in unrealised fair value during the year	(79)	(13,208)
Balance at 31 December	(12,948)	(12,869)
	(30,966)	2,375

18 INVESTMENT INCOME

	2009 US\$ 000	2008 US\$ 000
Loss on investments carried at fair value through statement of income	(2,329)	(115,149)
Dividend income	16,997	22,707
Gain on sale of disposal group	26,748	346,077
Gain on sale of available-for-sale investments (note 17)	39,989	23,975
Rental income from investment properties	803	1,186
Gain on sale of investment properties	17	1,438
Changes in fair value of investments properties (note 9)	(1,305)	(1,352)
Others	13,328	2,100
	94,248	280,982

Gain on sale of available-for-sale investments includes a gain of US\$ 0.9 million (2008: US\$ 7.8 million) on the sale of securities having a carrying value of US\$ 44.7 million (2008: US\$ 64.9 million) that were carried at cost.

Notes to the Consolidated Financial Statements

At 31 December 2009

19 INTEREST INCOME

	2009 US\$ 000	2008 US\$ 000
Time deposits with banks	747	6,373
Loans and receivables	2,260	5,206
Non-trading investments	14,819	4,787
Demand and call deposits with banks	285	4,376
	18,111	20,742

20 FEES AND COMMISSIONS

	2009 US\$ 000	2008 US\$ 000
Management fees from fiduciary activities	13,955	40,510
Advisory fees	9,339	14,352
Credit related fees, commissions and other income	442	1,389
	23,736	56,251

21 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD - NET

	2009 US\$ 000	2008 US\$ 000
Al-Dhiyafa Holding Company K.S.C. (closed)	(1,956)	540
Al Sharq Financial Brokerage Company	1,138	-
Arab Leadership Academy Company K.S.C.	-	(545)
Dhow Development Company	-	(546)
Kuwait Education Fund	(595)	67
Kuwait Private Equity Opportunities Fund	(1,616)	(1,197)
Millennium Finance Corporation	-	(4,297)
Manafae Investment Company	77	1,571
North Africa Holding Company	439	(3,298)
Royal Capital Company P.S.C.	296	497
SSH Dar International W.L.L.	878	656
Syria Gulf Bank	(244)	(795)
United Networks Company	(19)	-
United Medical Services Company K.S.C. (closed)	-	(618)
United Real Estate Company-Syria	(7)	-
United Real Estate Company-Jordan	(123)	14
United Industries Company	(11,266)	(17,904)
United Health Care Company	(192)	273
United Real Estate Company	756	7,745
United Universal Real Estate Company	(76)	3
	(12,510)	(17,834)

Notes to the Consolidated Financial Statements

At 31 December 2009

22 INTEREST EXPENSE

	2009 US\$ 000	2008 US\$ 000
Loans payable	25,943	35,262
Due to banks and other financial institutions	15,686	19,398
Subordinated debt	2,466	5,026
Deposits from customers	3,228	4,126
Bonds	3,978	3,596
	51,301	67,408

23 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2009 US\$ 000	2008 US\$ 000
Profit attributable to equity shareholders of the Bank	20,094	207,278
Weighted average number of shares outstanding during the year (in thousands)	816,578	818,823
Basic earnings per share (US cents)	2.46	25.31

Diluted

Diluted earnings per share is calculated by dividing the income attributable to the equity shareholders of the Bank, adjusted for the effect of conversion of employees' share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees' share options. The Bank has outstanding share options, issued under the Employee Stock Options Plan, which have a dilutive effect on earnings.

	2009 US\$ 000	2008 US\$ 000
Profit attributable to equity shareholders of the Bank	20,094	207,278
Weighted average number of shares outstanding during the year (in thousands)	816,578	818,823
Effect of dilutive potential ordinary shares:		
Share options (in thousands)	2,468	6,935
	819,046	825,758
Diluted earnings per share (US cents)	2.45	25.10

24 FUNDS UNDER MANAGEMENT

At 31 December 2009, the Group holds assets amounting to US\$ 7,223 million (31 December 2008: US\$ 9,015 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included in the assets on the consolidated statement of financial position.

25 CASH AND CASH EQUIVALENTS

	2009 US\$ 000	2008 US\$ 000
Demand and call deposits with banks	20,328	27,418
Time deposits with original maturities of ninety days or less	162,832	77,539
	183,160	104,957

Notes to the Consolidated Financial Statements

At 31 December 2009

26 SEGMENTAL INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Acting Chief Executive Officer (the chief operating decision-maker), who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.

Commercial banking Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

Segmental information relating to the Group's continuing and discontinued operations for the year ended 31 December 2009 was as follows:

	Asset management and investment banking US\$ 000	Commercial banking* US\$ 000	Eliminations US\$ 000	Total US\$ 000
Income from external customers	125,659	31,661	-	157,320
Inter-segment income	2,779	9,334	(12,113)	-
Share of results of associates and joint ventures accounted for using equity method	(12,266)	11,153	-	(1,113)
Total income	116,172	52,148	(12,113)	156,207
Operating income before provisions	35,762	29,455	(12,113)	53,104
Impairment loss on investments	(19,747)	-	-	(19,747)
Write-back of (provision for) doubtful loans, guarantees and other assets - net	1,261	(10,775)	-	(9,514)
Profit for the year	17,276	18,680	(12,113)	23,843
Income attributable to equity shareholders of the parent				20,094
Income attributable to non-controlling interests				3,749
				23,843

OTHER INFORMATION

Investments in associates and joint venture accounted for under equity method	632,052	70,565	-	702,617
Segment assets	1,880,962	533,445	(43,708)	2,370,699
Segment liabilities	1,383,698	370,968	43,708	1,798,374

* Includes assets held as disposal group.

Notes to the Consolidated Financial Statements

At 31 December 2009

26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended 31 December 2008 was as follows:

	Asset management and investment banking US\$ 000	Commercial* banking US\$ 000	Eliminations US\$ 000	Total US\$ 000
Income from external customers	359,227	66,262	-	425,489
Inter-segment income	-	304	(304)	-
Share of results of associates and joint ventures accounted for using equity method	(17,039)	23,506	-	6,467
Total income (loss)	342,188	90,072	(304)	431,956
Operating income (loss) before provisions	218,563	56,440	(304)	274,699
Impairment loss on investments	(56,651)	-	-	(56,651)
Write back of (provision for) doubtful loans, guarantees and other assets - net	(16)	(3,415)	-	(3,431)
Profit (loss) for the year	161,896	53,025	(304)	214,617
Income attributable to equity shareholders of the parent				207,278
Income attributable to non controlling interests				7,339
				214,617
OTHER INFORMATION				
Investments in joint venture accounted for under equity method	610,413	90,471	-	700,884
Segment assets	2,027,192	875,656	(33,725)	2,869,123
Segment liabilities	1,350,361	669,786	33,725	2,053,872

* Includes assets held as disposal group.

Geographical

The Group operates in five geographic markets: Domestic region (G.C.C.*), Middle East/Africa, Europe, North America and others. The following tables show the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2009 and 2008:

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
31 December 2009						
Total income	108,225	42,607	2,990	2,265	120	156,207
Non-current assets	1,195,224	105,761	31,361	64,815	-	1,397,161
31 December 2008						
Total income (loss)	96,864	359,691	(13,090)	(11,425)	(84)	431,956
Non-current assets	1,326,844	42,241	31,391	100,791	-	1,501,267

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

Notes to the Consolidated Financial Statements

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27 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

The income and expenses in respect of related parties transacted during the year are included in the consolidated financial statements and are as follows:

	2009				2008 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000	Total US\$ 000	
Gain (loss) on investments carried at fair value through statement of income, net	579	-	(2,712)	(2,133)	(14,681)
(Loss) gain on sale of non-trading investments	(802)	-	37,895	37,093	(859)
Gain on disposal of assets held for sale	-	-	26,181	26,181	276,918
Fees and commissions	2,282	1,365	9,948	13,595	32,870
Dividend income	-	614	11,298	11,912	3,066
Interest income	366	538	15,187	16,091	10,979
Interest expense	(2,525)	(164)	(16,736)	(19,425)	(16,658)
Others	-	(2)	13,338	13,336	1,783

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2009				2008 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000	Total US\$ 000	
Demand and call deposits with banks	-	6	1,792	1,798	10,239
Time deposits with banks	-	-	62,845	62,845	18,134
Investments, carried at fair value through statement of income	999	-	42,426	43,425	64,717
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	13,001	13,001	13,663
Non-trading investments	9,728	-	377,163	386,891	429,753
Loans and receivables	-	17,091	7,577	24,668	6,116
Other assets	812	1,194	25,396	27,402	9,307
Due to banks and other financial institutions	-	(4,027)	(333,252)	(337,279)	(182,418)
Deposits from customers	(172,796)	(29,803)	(7,871)	(210,470)	(7,363)
Loans payable	-	-	(121,705)	(121,705)	(146,869)
Other liabilities	(1,602)	(566)	(3,254)	(5,422)	(3,586)
Off balance sheet items					
Letters of credit	-	-	19,655	19,655	20,614
Letters of guarantee	-	-	807	807	825
Funds managed or advised by the Group (including funds under management)	-	-	81,371	81,371	115,144

Notes to the Consolidated Financial Statements

At 31 December 2009

27 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel remuneration are as follows:

	2009 US\$ 000	2008 US\$ 000
Short term employee benefits	11,971	18,439
Share based payments	1,177	1,019
Total compensation	13,148	19,458

All related party exposures are performing and are free of any provision for possible credit losses (2008: same).

These related party transactions include amounts relating to the disposal group subsidiary.

28 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

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

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers if certain conditions are made under the terms of the contract.

Commitments to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit and investment related commitments:

	2009 US\$ 000	2008 US\$ 000
Credit related		
Letters of credit	46,986	25,319
Letters of guarantee	18,740	209,476
	65,726	234,795
Investment related *	102,477	107,592
	168,203	342,387

All credit related commitments mature within one year. They also include the letters of credit and guarantees of the disposal group subsidiaries.

* Investment related commitments represent commitments for capital calls of fund of fund structures. These commitments can be called during the investment period of the fund which normally is 1 to 5 years.

Legal proceedings

On 23 July 2009, a foreign regulatory authority initiated litigation against the Group based on certain trading activities at one of the Group's subsidiaries. The Group is co-operating with the regulator and contesting the litigation. The Group (after consulting external legal counsel) believes that no provision is considered necessary in respect of this matter in these consolidated financial statements.

Notes to the Consolidated Financial Statements

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29 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amounts by term to maturity			
			Notional amount Total US\$ 000	Within 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000
31 December 2009						
Derivatives held for trading *						
Forward foreign exchange contracts	388	(226)	179,941	91,433	-	88,508
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	-	(430)	431,380	431,380	-	-
Derivatives used as cash flow hedges						
Interest rate swap	-	(12,948)	300,000	50,000	-	250,000
31 December 2008						
Derivatives held for trading *						
Forward foreign exchange contracts	2,160	(472)	346,851	219,187	127,664	-
Derivatives used as fair value hedges						
Forward foreign exchange contracts	36,861	-	1,089,020	296,246	792,774	-
Derivatives used as cash flow hedges						
Interest rate swap	-	(12,869)	325,000	-	75,000	250,000

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures. They also include forward foreign exchange contracts undertaken by the disposal group subsidiary.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Fair value hedges

Fair value hedges are used by the Bank to protect against changes in fair value of the financial assets due to movement in exchange rates. The Bank uses forward foreign exchange contracts to hedge against specifically identified currency exchange risks. At 31 December 2009, there were no fair value hedges outstanding.

Notes to the Consolidated Financial Statements

At 31 December 2009

29 DERIVATIVES (continued)

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2009 the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2009		2008	
	Within 1 year US\$ 000	1-5 years US\$ 000	Within 1 year US\$ 000	1-5 years US\$ 000
Net cash outflows (Liabilities)	9,477	8,562	10,413	21,287
Statement of income	-	(12,948)	(450)	(12,419)

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts to hedge against changes in the value of investment in subsidiaries and associated companies for an amount of US\$ 216 million (KWD 61.9 million) (2008: US\$ 472 million (KWD 130 million)). Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in the subsidiaries and associates.

30 RISK MANAGEMENT

30.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary of the Bank is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit / Investment Committee and (in the case of major subsidiaries) Assets and Liabilities Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

The Board's role is to approve investment strategies for the Bank. However, it has delegated authority for day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Acting Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.



Notes to the Consolidated Financial Statements

At 31 December 2009

30 RISK MANAGEMENT (continued)

30.1 Introduction (continued)

Risk management structure (continued)

The Executive Management of the Bank is headed by the Acting Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the nine members of the Bank's management team, each of them is responsible for his or her respective department. Several management committees have been formed which are chaired by the Acting Chief Executive Officer.

The Executive Committee comprises four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of five members.

The Audit Committee is appointed by the Board and consists of three members who are Directors, including one non-executive Director. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review and ratification of Investment Committee decisions. The Committee is headed by the Acting Chief Executive Officer and includes eight other senior executives of the Bank.

The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Bank's statement of financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's financial position both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions. The Committee is headed by the Acting Chief Executive Officer and includes six other senior executives of the Bank.

The Management Committee acts as the steering committee of the Bank as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Acting Chief Executive Officer and all Department Heads as well as Internal Audit. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Acting Chief Executive Officer.

The Insider Trading Committee comprises three members constituted from the Board of Director members and the Acting Chief Executive Officer as the alternate member. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain guidelines on insider trading.

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

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.1 Introduction (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Bank enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amount may be settled at maturity. With regard to the credit risk in the off balance sheet exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

30.2 Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in the investment activity where there is a possibility that a counterparty may fail to honor its commitment whenever an investment may fail.

Credit risk is mitigated through:

- (i) Establishing an appropriate credit risk environment;
- (ii) Operating under a sound credit and investment approval process;
- (iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
- (iv) Ensuring adequate controls over the credit risk management process.

The Bank has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes one Director, Acting Chief Executive Officer, Head of Investment Banking and Asset Management, Head of Core Investments and Chief Financial Officer. The Head of Credit and Risk Management acts as an Advisor to the Committee. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table below shows the Group's maximum exposure to credit risk for the components of on and off balance sheet exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2009 US\$ 000	2008 US\$ 000
Demand and call deposits with banks	20,328	27,418
Time deposits with banks	176,203	79,103
Non-trading investments	346,228	359,979
Loans and receivables	52,595	7,770
Other assets	42,527	69,312
Letters of credit	19,655	20,613
Letters of guarantee	1,815	2,494
	659,351	566,689

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2009 was US\$ 337 million (2008: US\$ 349 million) before taking account of collateral or other credit enhancements.

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
Demand and call deposits with banks	15,857	1,233	1,856	1,201	181	20,328
Time deposits with banks	108,562	7,323	47,000	13,318	-	176,203
Non-trading investments	346,228	-	-	-	-	346,228
Loans and receivables	21,294	2,663	26,638	2,000	-	52,595
Other assets	39,772	1,024	1,522	197	12	42,527
Letters of credit	19,655	-	-	-	-	19,655
Letters of guarantee	1,815	-	-	-	-	1,815
31 December 2009	553,183	12,243	77,016	16,716	193	659,351
Demand and call deposits with banks	25,588	168	944	135	583	27,418
Time deposits with banks	78,286	817	-	-	-	79,103
Non-trading investments	359,979	-	-	-	-	359,979
Loans and receivables	5,001	2,769	-	-	-	7,770
Other assets	63,482	5,539	122	-	169	69,312
Letters of credit	20,613	-	-	-	-	20,613
Letters of guarantee	2,494	-	-	-	-	2,494
31 December 2008	555,443	9,293	1,066	135	752	566,689

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

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

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Trading and manufacturing US\$ 000	Banks and other financial institutions US\$ 000	Construction and real estate US\$ 000	Individuals US\$ 000	Others US\$ 000	Total US\$ 000
At 31 December 2009						
Demand and call deposits with banks	-	20,328	-	-	-	20,328
Time deposits with banks	-	176,203	-	-	-	176,203
Non-trading investments	-	346,228	-	-	-	346,228
Loans and receivables	-	969	19,754	30,294	1,578	52,595
Other assets	2,000	1,538	21	41	38,927	42,527
Letters of credit	-	-	-	-	19,655	19,655
Letters of guarantee	-	1,815	-	-	-	1,815
	2,000	547,081	19,775	30,335	60,160	659,351
At 31 December 2008						
Demand and call deposits with banks	-	27,418	-	-	-	27,418
Time deposits with banks	-	79,103	-	-	-	79,103
Non-trading investments	-	359,979	-	-	-	359,979
Loans and receivables	-	-	2,769	5,001	-	7,770
Other assets	-	37,682	45	41	31,544	69,312
Letters of credit	-	-	-	-	20,613	20,613
Letters of guarantee	-	2,494	-	-	-	2,494
	-	506,676	2,814	5,042	52,157	566,689

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, trade receivables, bank guarantees; and
- For retail lending, mortgages over residential properties, claim over employees' end of service benefits etc.

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

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

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Credit risk exposure for each credit rating

	Investment grade US\$ 000	Non-investment grade US\$ 000	Unrated US\$ 000	Total US\$ 000
At 31 December 2009				
Demand and call deposits with banks	18,898	40	1,390	20,328
Time deposits with banks	128,608	40,000	7,595	176,203
Non-trading investments	346,086	-	142	346,228
Loans and receivables	-	-	52,595	52,595
Other assets	-	-	42,527	42,527
Letters of credit	-	-	19,655	19,655
Letters of guarantee	807	-	1,008	1,815
	494,399	40,040	124,912	659,351
At 31 December 2008				
Demand and call deposits with banks	24,828	117	2,473	27,418
Time deposits with banks	78,014	-	1,089	79,103
Non-trading investments	359,979	-	-	359,979
Loans and receivables	-	-	7,770	7,770
Other assets	2,772	-	66,540	69,312
Letters of credit	-	-	20,613	20,613
Letters of guarantee	-	1,669	825	2,494
	465,593	1,786	99,310	566,689

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. All internal risk ratings which are largely subjective are tailored to the various categories and are derived in accordance with the rating policy and practices. The attributable risk ratings are assessed and updated regularly.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group has no material renegotiated loans as of 31 December 2009 or 2008.

30.3 Market risk

Market risk is defined as the risk of losses in the value of on-or-off balance sheet financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirement for credit risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

The Bank has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

<i>Currency</i>	Increase in basis points 2009	Sensitivity of net interest income 2009 US\$ 000	Increase in basis points 2008	Sensitivity of net interest income 2008 US\$ 000
Kuwaiti Dinar	+ 25	(669)	+ 25	3
United States Dollar	+ 25	(396)	+ 25	(1,005)
Euro	+ 25	(74)	+ 25	(260)
Pound Sterling	+ 25	1	+ 25	-
Others	+ 25	2	+ 25	(63)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

<i>Currency</i>	Change in currency rate in % 2009	Effect on profit before tax 2009 US\$ 000	Change in currency rate in % 2008	Effect on profit before tax 2008 US\$ 000
Kuwaiti Dinar	+1	(4,402)	+1	(733)
	-1	4,402	-1	733
Euro	+1	(331)	+1	(1,081)
	-1	331	-1	1,081
Jordanian Dinar	+1	(29)	+1	-
	-1	29	-1	-

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
At 31 December 2009					
Investments carried at fair value through statement of income					
Quoted equities	24,795	-	66	-	24,861
Managed funds	88,670	26,076	15,708	-	130,454
	113,465	26,076	15,774	-	155,315
Non-trading investments					
Quoted equities	67,475	-	-	-	67,475
Unquoted equities	69,283	25,698	9,158	-	104,139
Managed funds	136,186	5,637	55,656	-	197,479
	272,944	31,335	64,814	-	369,093
Total	386,409	57,411	80,588	-	524,408

	Middle East/ Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Asia US\$ 000	Total US\$ 000
At 31 December 2008					
Investments carried at fair value through statement of income					
Quoted equities	40,108	2	8,114	242	48,466
Managed funds	120,323	59,631	16,744	-	196,698
	160,431	59,633	24,858	242	245,164
Non trading investments					
Quoted equities	88,273	-	44	-	88,317
Unquoted equities	137,705	26,060	34,928	-	198,693
Managed funds	169,619	5,332	56,068	-	231,019
	395,597	31,392	91,040	-	518,029
Total	556,028	91,025	115,898	242	763,193

Any change in equity price index or the net asset values of the above financial instruments will have a direct impact on income or equity. The majority of the equities in the Middle East/Africa region are quoted in the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2009	On demand US\$ '000	1 - 6 months US\$ '000	6 - 12 months US\$ '000	1 - 5 years US\$ '000	5-10 years US\$ '000	Total US\$ '000
Financial liabilities						
Due to banks and other financial institutions	110,377	350,080	-	-	-	460,457
Deposits from customers	189,166	38,994	-	-	-	228,160
Loans payable	15,736	62,547	34,494	411,369	-	524,146
Bonds	392	1,898	2,329	71,064	-	75,683
Subordinated debt	564	2,729	3,348	33,223	105,222	145,086
Other liabilities	7,947	38,742	-	25,313	-	72,002
Total non-derivative undiscounted financial liabilities	324,182	494,990	40,171	540,969	105,222	1,505,534
Off-balance sheet items						
Gross settled foreign currency derivatives	-	-	522,813	-	88,508	611,321
Letters of credit	-	-	13,352	6,303	-	19,655
Letters of guarantee	-	-	-	-	1,815	1,815

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30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

At 31 December 2008	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	5 - 10 years US\$ 000	Total US\$ 000
Financial liabilities						
Due to banks and other financial institutions	328,466	169,449	2,282	-	-	500,197
Deposits from customers	49,895	16,587	-	-	-	66,482
Loans payable	74,270	66,747	39,503	227,202	260,355	668,077
Bonds	351	1,698	2,083	69,445	-	73,577
Subordinated debt	564	2,729	3,347	33,223	111,863	151,726
Other liabilities	12,651	39,938	12,963	-	-	65,552
Total non-derivative undiscounted financial liabilities	466,197	297,148	60,178	329,870	372,218	1,525,611
Off-balance sheet items						
Gross settled foreign currency derivatives	-	-	518,392	917,479	-	917,479
Letters of credit	-	-	-	20,613	-	20,613
Letters of guarantee	-	-	-	2,494	-	2,494

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

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At 31 December 2009

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset-Liability Committee evaluates the balance sheet both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, substantial excess value over cost of its investment in listed subsidiary, ensure that funds are made available at competitive rates.

The maturity analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

	Up to 3 months US\$ 000	3 months to 1 year US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	Over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
At 31 December 2009							
Demand and call deposits							
with banks	20,275	-	20,275	53	-	53	20,328
Time deposits with banks	162,885	13,318	176,203	-	-	-	176,203
Investments carried at fair value							
through statement of income	155,315	-	155,315	-	-	-	155,315
Non-trading investments	67,475	-	67,475	163,608	484,238	647,846	715,321
Loans and receivables	18,763	30,550	49,313	3,282	-	3,282	52,595
Other assets	310	42,217	42,527	-	-	-	42,527
Total financial assets	425,023	86,085	511,108	166,943	484,238	651,181	1,162,289
Due to banks and other							
financial institutions	247,138	211,209	458,347	-	-	-	458,347
Deposits from customers	80,696	146,487	227,183	-	-	-	227,183
Loans payable	15,696	94,772	110,468	390,518	-	390,518	500,986
Bonds	-	-	-	68,888	-	68,888	68,888
Subordinated debt	-	-	-	-	100,000	100,000	100,000
Other liabilities	7,947	38,742	46,689	25,313	-	25,313	72,002
Total financial liabilities	351,477	491,210	842,687	484,719	100,000	584,719	1,427,406
Liquidity gap	73,546	(405,125)	(331,579)	(317,776)	384,238	66,462	(265,117)
Cumulative liquidity gap	73,546	(331,579)		(649,355)	(265,117)		

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30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

At 31 December 2008	Up to 3 months US\$ 000	3 months to 1 year US\$ 000	Sub total less than 12 months US\$ 000	1 to 5 years US\$ 000	Over 5 years US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
Demand and call deposits							
with banks	27,365	-	27,365	-	53	53	27,418
Time deposits with banks	79,103	-	79,103	-	-	-	79,103
Investments carried at fair value							
through statement of income	245,164	-	245,164	-	-	-	245,164
Non-trading investments	88,317	-	88,317	610,628	179,063	789,691	878,008
Loans and receivables	1,821	2,650	4,471	3,299	-	3,299	7,770
Other assets	1,179	33,694	34,873	693	33,746	34,439	69,312
Total financial assets	442,949	36,344	479,293	614,620	212,862	827,482	1,306,775
Due to banks and other financial institutions	474,826	22,969	497,795	-	-	-	497,795
Deposits from customers	61,039	-	61,039	-	-	-	61,039
Loans payable	38,081	139,602	177,683	410,387	-	410,387	588,070
Bonds	-	-	-	71,630	-	71,630	71,630
Subordinated debt	-	-	-	-	100,000	100,000	100,000
Other liabilities	12,651	39,938	52,589	12,963	-	12,963	65,552
Total financial liabilities	586,597	202,509	789,106	494,980	100,000	594,980	1,384,086
Liquidity gap	(143,648)	(166,165)	(309,813)	119,640	112,862	232,502	(77,311)
Cumulative liquidity gap	(143,648)	(309,813)		(190,173)	(77,311)		

30.5 Operational risk

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

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of quoted securities are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2009:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Investments carried at fair value through statement of income				
Quoted equities	24,861	-	-	24,861
Quoted managed funds	69,917	-	-	69,917
Unquoted managed funds	-	60,537	-	60,537
	94,778	60,537	-	155,315
Non-trading investments				
Quoted securities				
Equities	67,475	-	-	67,475
Unquoted securities				
Equities	-	37,604	1,040	38,644
Real estate managed funds	-	9,055	-	9,055
Other managed funds	-	146,095	29,981	176,076
Debt securities	-	-	10,572	10,572
	67,475	192,754	41,593	301,822
	162,253	253,291	41,593	457,137

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2009 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statements except for non-trading investments carried at cost (note 5) and the following:

The table below sets out the carrying value and the fair value of the financial instruments where fair values are materially different from their carrying values:

	2009		2008	
	Carrying value US\$ 000	Fair value US\$ 000	Carrying value US\$ 000	Fair value US\$ 000
Subordinated debt	100,000	49,000	100,000	90,500

Except for the above and the non-trading investments carried at cost (note 5), the fair values of the financial instruments are not materially different from their carrying values as of the date of statement of financial position.

32 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the Central Bank of Bahrain.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the Central Bank of Bahrain and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

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

	2009 US\$ 000	2008 US\$ 000
Capital base:		
Tier 1 capital	412,799	459,373
Tier 2 capital	57,874	232,132
Total capital base (a)	470,673	691,505
Credit risk weighted exposure	2,716,889	3,514,705
Market risk weighted exposure	260,213	147,525
Operational risk weighted exposure	276,978	366,145
Total risk weighted exposure (b)	3,254,080	4,028,375
Capital adequacy (a/b * 100)	14.5%	17.2%
Minimum requirement	12.0%	12.0%

The above risk asset ratio calculation includes the disposal group subsidiary.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserves, treasury share reserve, foreign currency reserve and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.