

FIRST LEASING BANK BSC (c)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

FIRST LEASING BANK BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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FIRST LEASING BANK BSC (c)

Board of Directors' Report for the year ended 31 December 2010

On behalf of the Board of Directors, it is my privilege to present the Board of Directors' report together with the audited consolidated financial statements of First Leasing Bank B.S.C. (c) (FLB) for the year ended 31 December 2010. The year 2010 has proven to be another difficult year given the financial crisis and economic downturn globally, regionally and locally.

While our financial results reflect negative growth, FLB's lease portfolio generated consistent cash flows and income that had adequately sustained the Bank through the year. The Bank adjusted its strategy and focused on the performance of its portfolio, maintaining cash flows and implementing further operational and risk management improvements. First Leasing Bank remains committed to be the leading financial services company in the GCC specialising in Sharia'a Compliant equipment leasing.

Financial Performance

Total Operating Income for the year dropped to USD 6.5 million from USD 7.9 million in the prior year. The drop is mainly attributable to the decrease in income from core Financing Activities due to limited origination of new leases as a result of the adverse market conditions. The Bank's Finance Cost decreased by USD 0.9 million, reflecting the settlement of matured loans and amortisation of the Bank's Murabaha facility. During 2010, FLB has booked impairment provisions of USD 4.2 million (2009: USD 2.8 million) to accommodate for the inherent risk of the present economy on our leasing portfolio. During October, 2010, FLB has resolved to liquidate its subsidiary, FLB Capital, Dubai, UAE, and as such the estimated loss from the discontinued operations would amount to USD 1.2 million. Consequently, FLB has reported a net loss, after impairment provision and estimated loss on disposal of subsidiary, of USD 3.5 million compared to a net profit of USD 0.4 million for the year 2009.

At year end 2010, the Bank's total assets stood at USD 147.5 million compared to USD 155.6 million at year end of 2009. Shareholders' equity decreased to USD 100.7 million at year end of 2010 from USD 104.2 million at year end of 2009. The decrease is due to the net loss for the year of USD 3.5 million which is attributable to the impairment provision of USD 4.2 million and to the loss of USD 1.2 million arising from discontinued operation of a subsidiary in Dubai, UAE.

The Bank continued to have a strong capital adequacy ratio ("CAR"). As compared to the minimum CAR of 12% required by Central Bank of Bahrain, FLB ratio at year end 2010 is 65.2% (2009: 59.9%), representing more than five times the minimum ratio of 12%, hence, the Bank has the capacity to leverage its capital and write leasing transactions and still meet the minimum CAR of 12%. However, the Bank plans to continue its conservative approach to liquidity and book leases only on a selective basis in accordance with its plans.

Liquidity continues to be comfortable and with cash, balances with banks and placements with banks representing 24% of the total assets at year end 2010.

Demand for FLB leasing products remains consistently strong in all industry sectors. The ability to grow assets and build a quality portfolio remains our opportunity to fully develop in the GCC market. Access to attractive yields and high quality transactions remain a positive by-product of the present economic downturn. The Bank's overall return on equity will reach viable levels once a debt-to-equity leverage ratio of 3:1 is achieved on our existing equity base.

FIRST LEASING BANK BSC (c)

Board of Directors Report for the year ended 31 December 2010 (continued)

Corporate Performance

During 2010 FLB continued its focus on portfolio performance, safeguarding assets and improving our operational capabilities. The Bank continuously perfected its collection and enforcement practices throughout the year, extensively using on-site collection and customer monitoring approach. The Bank enforced its contract terms in lieu of restructuring, when necessary. Under strict go-to-market parameters for new lease originations, the Bank managed to stay in the market and originate leases for our new and existing customers on a selective basis.

The year 2010 was a very difficult year and we believe 2011 will be a very challenging one too. However, FLB continues to improve its foundation to ensure steady stream of income from our existing portfolio and safe and successful growth in the future till we reach an optimum level of return on equity.

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and sincere appreciation to our shareholders and clients for their continued support and loyalty throughout the year. Also, I would like to extend our thanks and appreciation to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their stewardship and regulatory advice and support; as well as to the employees and management of the Bank for their hard work and commitment.

Board of Directors

The following seven directors, including the Chairman, together bring a wide range of skills and experience to the Board:

1. Mr. Khalid Mohammed Kanoo	Chairman of the Board of Directors
2. Mr. Mohammed Abdulrahman Hussain	Chairman of the Executive and Investment Committee
3. Mr. Ahmed Abdulrahim	Ithmaar Bank, General Manager – Retail Banking
4. Sh. Ali Khalifa Al-Khalifa	Palm Capital, Head of Investment
5. Mr. Yousif Khalaf	Chairman of The Audit and Risk Committee
6. Mr. Raafat Mokbal Abdelwahab	Faisal Islamic Bank of Egypt, Deputy CEO
7. Dr. Mahmoud El. Borai	Pumping Engineering Ltd, Chairman

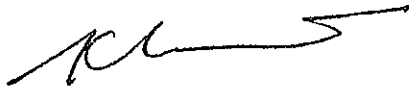
The number of shares held by the Directors and their related parties as at 31 December 2010 were 2,100,000 shares representing 2.1% of the total number of shares.

Sharia'a Advisor

Dr. Fareed Mohammed Hadi, a prominent Bahraini Islamic scholar, Chairman - Arabic and Islamic Studies, University of Bahrain, is First Leasing Bank's Sharia'a advisor. Dr. Hadi reviews all investments and business activities to ensure compliance with the Sharia'a Principles.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution proposing their reappointment will be placed before the Annual General Meeting.



Khalid Mohammed Kanoo
Chairman

9 March 2011

Independent auditor's report to the shareholders of
First Leasing Bank B.S.C. (c)

Report on the financial statements

We have audited the accompanying consolidated financial statements of First Leasing Bank BSC (c) (the Bank) and its subsidiary (together, the Group) which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Independent auditor's report to the shareholders of
First Leasing Bank B.S.C. (c) (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Bank may cease to exist as a legal entity as a result of a proposed change in its ownership structure. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

Report on regulatory requirements

Further, in accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the financial statements and the financial information contained in the Directors' report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2010.

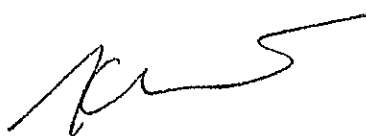
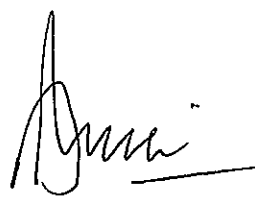

10 March 2011
Manama, Kingdom of Bahrain

FIRST LEASING BANK BSC (c)**Consolidated statement of financial position**

(All amounts expressed in United States Dollars unless otherwise stated)

		As at 31 December	
	Note	2010	2009
ASSETS			
Cash and balances with banks		8,150,460	1,230,514
Placements with banks		27,664,758	15,823,962
Finance lease receivables	5	86,941,431	116,606,303
Investment securities available-for-sale	6	20,796,950	20,121,950
Property and equipment	7	2,607,043	1,252,776
Other assets	8	1,303,150	552,368
		<u>147,463,792</u>	<u>155,587,873</u>
Assets of disposal group classified as held for sale	9	71,434	-
Total assets		<u>147,535,226</u>	<u>155,587,873</u>
LIABILITIES			
Due to banks	10	27,585,394	20,918,097
Due to related parties	11	18,080,410	29,693,577
Accounts payable and other liabilities	12	664,333	801,628
		<u>46,330,137</u>	<u>51,413,302</u>
Liabilities of disposal group classified as held for sale	9	538,178	-
Total liabilities		<u>46,868,315</u>	<u>51,413,302</u>
EQUITY			
Share capital	13	100,000,000	100,000,000
Statutory reserve	14	788,534	788,534
Accumulated (losses)/retained earnings		(121,623)	3,386,037
Total equity		<u>100,666,911</u>	<u>104,174,571</u>
Total liabilities and equity		<u>147,535,226</u>	<u>155,587,873</u>

These consolidated financial statements were approved for issue by the Board of Directors on 9 March 2011 and signed on its behalf by:


Khalid Mohamed Kanoo
Chairman
Mohamed Hussain
Director


The notes on pages 9 to 34 are an integral part of these financial statements.


FIRST LEASING BANK BSC (c)**Consolidated statement of comprehensive income**

(All amounts expressed in United States Dollars unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009
Income from financing activities and similar income		7,658,585	9,870,432
Profit on placements with banks		1,042,054	953,176
Finance cost and similar charges		(3,472,175)	(4,399,460)
		<u>5,228,464</u>	<u>6,424,148</u>
Fee and commission income	15	354,216	416,365
Income from investment activities		578,287	707,627
Other income	16	343,643	320,253
Total operating income		<u>6,504,610</u>	<u>7,868,393</u>
Staff costs		(2,903,406)	(2,876,965)
Other operating expenses	17	(1,643,262)	(1,792,895)
Loss on disposal of investment securities available for sale		-	(65,328)
Total operating expenses excluding provisions		<u>(4,546,668)</u>	<u>(4,735,188)</u>
Profit for the year prior to provision for impairment		1,957,942	3,133,205
Provision for impairment			
Finance lease receivables	5	(3,930,050)	(2,177,448)
Property and equipment	7	(316,162)	-
Investment securities available-for-sale	6	-	(588,235)
		<u>(4,246,212)</u>	<u>(2,765,683)</u>
(Loss)/profit for the year after provision for impairment from continued operations		(2,288,270)	367,522
Loss for the year from discontinued operations	9	(1,219,390)	-
(Loss)/profit for the year		(3,507,660)	367,522
Other comprehensive income for the year		-	-
Total comprehensive (loss)/income for the year		<u>(3,507,660)</u>	<u>367,522</u>

These consolidated financial statements were approved for issue by the Board of Directors on 9 March 2011 and signed on its behalf by:


Khalid Mohamed Kanoo
Chairman


Mohamed Hussain
Director

The notes on pages 9 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)**Consolidated statement of changes in equity**

(All amounts expressed in United States Dollars unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
At 1 January 2009	100,000,000	751,782	3,055,267	103,807,049
Total comprehensive income for the year	-	-	367,522	367,522
Transfer to statutory reserve	-	36,752	(36,752)	-
At 31 December 2009	<u>100,000,000</u>	<u>788,534</u>	<u>3,386,037</u>	<u>104,174,571</u>
At 1 January 2010	100,000,000	788,534	3,386,037	104,174,571
Total comprehensive loss for the year	-	-	(3,507,660)	(3,507,660)
At 31 December 2010	<u>100,000,000</u>	<u>788,534</u>	<u>(121,623)</u>	<u>100,666,911</u>

The notes on pages 9 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)**Consolidated statement of cash flows**

(All amounts expressed in United States Dollars unless otherwise stated)

	Note	<u>Year ended 31 December</u>	
		2010	2009
Operating activities			
(Loss)/profit for the year		(3,507,660)	367,522
<u>Adjustments for:</u>			
Depreciation		414,522	189,334
Income from investment securities available-for-sale		(578,287)	(707,627)
(Gain)/loss on disposal of property and equipment		(603)	2,515
Loss on disposal of investments		-	65,328
Provision for impairment		4,246,212	2,765,683
		<u>574,184</u>	<u>2,682,755</u>
<u>Changes in operating assets and liabilities:</u>			
Decrease in finance lease receivables		25,418,660	3,182,562
(Increase)/decrease in other assets		(750,782)	262,367
Decrease in accounts payable and other liabilities		(137,295)	(508,762)
Increase in amounts due to banks		312,778	594,008
(Increase)/ decrease in other amounts due to related parties		688,736	(160,087)
Net cash provided by operating activities		<u>26,106,281</u>	<u>6,052,843</u>
Investing activities			
Purchase of property and equipment	7	(1,603,509)	(344,934)
Proceeds from sale of property and equipment		635	1,074
Acquisition of subsidiary classified as held for sale		(230,300)	-
Purchase of investment securities available-for-sale	6	(675,000)	(250,000)
Proceeds from investment securities available-for-sale		578,287	707,627
Net cash (used in)/provided by investing activities		<u>(1,929,887)</u>	<u>113,767</u>
Financing activities			
Proceeds from borrowed funds		40,000,000	17,957,500
Repayment of borrowed funds		(45,409,245)	(42,036,746)
Decrease in placements with bank		(7,436,642)	(10,236,031)
Net cash used in financing activities		<u>(12,845,887)</u>	<u>(34,315,277)</u>
Net increase/(decrease) in cash and cash equivalents		11,330,507	(28,148,667)
Cash and cash equivalents at the beginning of the year		<u>6,818,445</u>	<u>34,967,112</u>
Cash and cash equivalents at the end of the year		<u>18,148,952</u>	<u>6,818,445</u>
Cash and cash equivalents comprise:			
Placements with banks		27,664,758	5,587,931
Cash and balances with bank		8,150,460	1,230,514
Cash from held for sale and discontinued operations	9	6,407	-
		<u>35,821,625</u>	<u>6,818,445</u>
Less: Placements with banks maturing after 3 months		<u>(17,672,673)</u>	-
		<u>18,148,952</u>	<u>6,818,445</u>

The notes on pages 9 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010

(All amounts expressed in United States Dollars unless otherwise stated)

1. Incorporation and principal activity

First Leasing Bank B.S.C.(c) ("the Bank") was incorporated in the Kingdom of Bahrain as a closed Bahraini shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain under Commercial Registration number 54236 on 2 August 2004. The Bank operates under a Wholesale Banking License issued by the Central Bank of Bahrain. The registered office of the Bank and its principal place of business is located at Addax Tower, Al Seef District, Kingdom of Bahrain.

The Bank and its subsidiary (collectively "the Group") are principally engaged in the provision of finance and operating equipment leases (Ijara), asset management and trade finance activities throughout the Gulf Co-operation Council countries and other countries.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

2.1 Basis of preparation

The Bank's financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as issued by the IASB.

The financial statements comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes.

During October 2010, the Board of Directors resolved to proceed with a proposal from a financial institution to acquire the Bank's business, assets and liabilities in exchange for issuing shares to the existing shareholders of the Bank. During December 2010, the Bank obtained an "in principle no objection" from the Central Bank of Bahrain to proceed with the proposed transaction subject to approval of the shareholders and completion of various regulatory steps. However, a potential consequence of the transaction is that the Bank may cease to exist as a legal entity. Although there is a material uncertainty that may cast doubt on the entity's ability to continue as a going concern, these consolidated financial statements have been prepared on a going concern basis as the transaction process is still at an early stage.

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include placements with bank maturing in less than 3 months.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. The cash flows from investing and financing activities are determined by using the direct method. The assignment of the cash flows to operating and investing categories depends on the Banks' business model (management approach).

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Other than the basis of preparation as set out above, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2009, except as described below.

(a) Standards, amendments and interpretations effective and relevant to the Group's operations

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), 'Consolidated and separate financial statements', at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

Management has assessed the impact of the above amendments and interpretations to the published standards and has concluded that they would not have any impact on these consolidated financial statements.

(b) Standards, amendments and interpretations effective and not relevant to the Group's operations

The following standards and amendments to the existing standards are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but are not currently relevant for the Group.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for periods commencing 1 July 2009);
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective for periods commencing 1 July 2009);
- IFRIC 18, 'Transfers of assets from customers' (effective for periods commencing 1 July 2009);
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments' (effective for periods commencing 1 July 2009);

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations effective and not relevant to the Group's operations
(continued)

- IAS 1 (amendment), 'Presentation of financial statements' relating additional clarification to the potential settlement of a liability by the issue of equity (effective 1 January 2010);
- IAS 36 (amendment), 'Impairment of assets' relating to clarification of the largest cash-generating unit (or group of units) (effective 1 January 2010);
- IFRS 2 (amendment), 'Group cash-settled share-based payment transactions' relating to expansion on the guidance of IFRIC 11 (effective 1 January 2010);
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations' relating to disclosures required in respect of non-current assets classified as held for sale or discontinued operations;

(c) Standards, amendments and interpretations not effective and not early adopted by the Group

The following interpretations/revisions to standards were issued but not effective and the Group has not early adopted.

- Revised IAS 24 (revised), 'Related party disclosure' mandatory for periods beginning on or after 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010).
- 'Classification of rights issue' (amendment to IAS 32), (effective for periods commencing 1 February 2010).
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14) (effective for periods commencing 1 January 2011).

Management has assessed the impact of the above standards, amendments and interpretations to the published standards on the consolidated financial statements and has concluded that they either are not currently relevant to the Group's consolidated financial statements or no material changes to the accounting policies or disclosures are expected as a result of these amendments.

IFRS 9, 'Financial instruments part 1; Classification and measurement' (effective for periods commencing 1 January 2013). Management is considering the implications of the above standard, its impact on the Group and the timing of its application by the Group.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2.2 Consolidation

Subsidiaries are those companies controlled, directly or indirectly, by the Bank, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights or currently exercisable potential voting rights of an entity's share capital. Special Purpose Entities are consolidated where the substance of the relationship is that the Special Purpose Entity is controlled by the Group. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group. Inter-company balances, transactions and resulting unrealised income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

2.3 Revenue recognition

Finance lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the investment amount outstanding on the finance lease.

Profit from placements with banks is recognised on an accrual basis using the effective interest rate method.

Fees and commission income are generally recognised on an accrual basis when the service has been provided.

Lease origination management fee relating to finance activities is recognised over the period of lease and management fee relating to funds under management is recognized over the period in which the service is provided.

Restructuring fees for finance leases are deferred and recognised as an adjustment to the effective rate on finance lease.

Liquidated damages fees charged on late payment of lease rentals and are recognised on a cash basis as earned.

2.4 Finance expenses

Finance expense on the Banks' borrowings is recognised on an accrual basis using the effective interest rate method in the statement of comprehensive income as finance costs.

The effective interest method is a method of calculating the amortised cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial assets or financial liability.

2.5 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2. Significant accounting policies (continued)

2.6 Foreign currency transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The financial statements are presented in United States Dollars, which represents the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the Bank using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.7 Financial assets

The Bank classifies its financial assets in the following categories: finance lease receivables and investment securities available-for-sale. Management determines the classification of its financial assets at initial recognition.

i) Finance lease receivable

Finance lease receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity upon initial recognition designates as available-for-sale; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Finance lease receivable are initially measured at fair value and are subsequently carried at amortised cost using the effective interest method. When assets are held subject to a finance lease, the present value of lease payments (excluding those related to participations of third parties) are recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

ii) Investment securities available-for-sale

Investment securities available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates; these are designated as such at inception.

Regular-way purchases and sales of available-for-sale are recognised on the trade date which is the date on which the Bank commits to purchase or sell the asset.

Investment securities available-for-sale are initially recognised at fair value, which is the cost consideration including transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2. Significant accounting policies (continued)

2.7 Financial assets (continued)

Investment securities available-for-sale are subsequently carried at fair value unless fair value for equity instruments without an active market cannot be determined reliably by the Bank whereby such investments are carried at cost less impairment. Gains and losses arising from the changes in the fair value of investment securities available-for-sale are recognised directly in the statement of changes in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in statement of comprehensive income. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of comprehensive income.

The fair value of quoted investments in active markets is based on current bid price. If there is no active market for such financial assets, the Bank establishes fair values using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques used by other participants. The Bank also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets. Where none of these valuation techniques produces reliable valuation estimates, such equity investment securities available-for-sale are held at cost less impairment.

2.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on the straight-line method to write off the cost of these assets over their estimated useful lives of one to five years.

Subsequent costs are included in the carrying amount of the original property and equipment or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at balance sheet date.

Property and equipment residual value and useful lives are reviewed, and adjusted if appropriate, at each of the statement of financial position date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the statement of comprehensive income.

2.9 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

2. Significant accounting policies (continued)

2.10 Employee benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Bank contributes to the pension scheme for Bahraini nationals administered by the General Organization for Social Insurance in the Kingdom of Bahrain. This is a defined contribution pension plan and the Bank's contributions are charged to the statement of comprehensive income in the year to which they relate. In respect of this plan the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

The expatriate employees of the Bank are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Bank accrues its liability in this respect on an annual basis.

2.11 Impairment of finance lease receivables

An allowance for impairment is established if there is objective evidence that the Bank will not be able to collect the amount due according to the original contractual terms of the lease. The amount of the provision is the difference between the carrying amount at the time the lease is considered doubtful and the recoverable amount being the present value of expected proceeds arising from sale of the leased assets discounted at the original effective interest rate of the lease plus any amount recoverable through litigation or direct negotiation with the lessee.

2.12 Impairment of investment securities available-for-sale

An allowance for impairment is established if there is objective evidence that the Bank will not be able to collect the amount due according to the original contractual term of the investment. The amount of the provision is the difference between the carrying amount at the time the investment is considered impaired and the estimated recoverable amount.

2.13 Share capital

Share issue cost

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the statement of financial position are recognised as a liability in the subsequent period.

2.14 Fiduciary activities

The Bank commonly acts in other fiduciary capacity that results in holding assets on behalf of the counterparty. These assets and income thereon are excluded from these financial statements, as they are not the assets of the Bank.

2.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with banks and placements with banks having an original maturity of three months or less.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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3. Financial risk management

Financial risk factors

The Bank's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realisable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the senior management under policies that are approved by the Board of Directors. The senior management includes the Management Transition Committee which comprises of two members of the Board of Directors and two members of the executive team and who is acting temporarily as a CEO until a new CEO is appointed. The senior management is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

Risk controlling

The senior management are responsible for monitoring compliance with risk principles, policies and limits, within the Bank as well as for managing the Bank's assets and liabilities and overall financial structure. In addition to that, the senior management is primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes in the Bank are audited annually by the internal audit department of a related party (Ithmaar Bank B.S.C. (c)) that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The internal auditor discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee of the Bank.

3.1 Credit risk and concentrations of risk

3.1.1 Credit risk measurement

The Bank is exposed to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Financial assets which potentially subject the Bank to concentrations of credit risk consist principally of balances with banks, placement with banks and finance lease receivables.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)**3.1 Credit risk and concentrations of risk (continued)****3.1.2 Risk limit control and mitigation policies**

The Bank manages limits and controls concentrations of risk wherever they are identified. In the normal course of business, the Bank places significant deposits with high credit quality banks and financial institutions. The Bank structures the levels of credit risks it undertakes by placing limits on the amount of risk accepted in relation to one customer, or group of customers, and to geographical and industry segments. Such risks are monitored on revolving basis and are subject to an annual or more frequent review, when considered necessary. Exposure to credit risk is also managed through regular analysis of the ability of counterparties and potential counterparties to meet profit and capital repayment obligations and by changing these limits where appropriate. Further, the Bank holds title over all the leased assets and is legally authorised to take back the assets in case a customer defaults in paying the due installments.

3.1.3 Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty. The maximum credit exposure to any client or counterparty as of 31 December 2010 was USD 29 million (31 December 2009: USD 17 million). The Bank's significant financial assets are primarily within the Middle East.

3.1.4 Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk by individual components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 31 December	
		2010	2009
Cash and balances with banks		8,150,460	1,230,514
Placements with banks		27,664,758	15,823,962
Finance lease receivables	5	86,941,431	116,606,303
Total credit risk exposure – on balance sheet		122,756,649	133,660,779
Lease commitments – off-balance sheet	18	2,300,000	-

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)**3.1.5 Concentration of risks of financial assets with credit risk exposure****(a) Geographical sectors**

The following table breaks down the credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2010.

	31 December 2010				
	UAE	Bahrain	Other GCC countries	Others	Total
Assets					
Cash and balances with banks	1,188,225	6,962,235	-	-	8,150,460
Placements with bank	-	27,664,758	-	-	27,664,758
Finance lease receivables	48,525,301	11,184,607	23,637,549	3,593,974	86,941,431
Total	49,713,526	45,811,600	23,637,549	3,593,974	122,756,649

Credit risk exposures relating to off-balance sheet items are as follows:

	31 December 2010				
	UAE	Bahrain	Other GCC countries	Others	Total
Commitments	-	-	2,300,000	-	2,300,000
Total	-	-	2,300,000	-	2,300,000

The following table breaks down the credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2009.

	31 December 2009				
	UAE	Bahrain	Other GCC countries	Others	Total
Assets					
Cash and balances with banks	221,137	1,009,377	-	-	1,230,514
Placements with bank	-	15,823,962	-	-	15,823,962
Finance lease receivables	67,149,598	16,896,556	25,034,724	7,525,425	116,606,303
Total	67,370,735	33,729,895	25,034,724	7,525,425	133,660,779

At 31 December 2009, the bank had no off-balance sheet items.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)**3.1.5 Concentration of risks of financial assets with credit risk exposure (continued)****(b) Industry sectors**

The following table breaks down the credit exposure at their carrying amounts, as categorized by industry sectors as of 31 December 2010.

	31 December 2010						
	Construction	Manufacturing	Printing	Medical	Real estate	Others	Total
Assets							
Cash and balances with banks	-	-	-	-	-	8,150,460	8,150,460
Placements with bank	-	-	-	-	-	27,664,758	27,664,758
Finance lease receivable	38,870,645	12,282,394	7,324,550	5,680,023	2,995,322	19,788,497	86,941,431
Total	38,870,645	12,282,394	7,324,550	5,680,023	2,995,322	55,603,715	122,756,649

Credit risk exposures relating to off-balance sheet items are as follows:

	31 December 2010						
	Construction	Manufacturing	Printing	Medical	Real estate	Others	Total
Assets							
Commitments	-	-	-	-	-	2,300,000	2,300,000
Total	-	-	-	-	-	2,300,000	2,300,000

The following table breaks down the credit exposure at their carrying amounts, as categorized by industry sectors as of 31 December 2009.

	31 December 2009						
	Construction	Manufacturing	Printing	Medical	Real estate	Others	Total
Cash and balances with banks	-	-	-	-	-	1,230,514	1,230,514
Placements with banks	-	-	-	-	-	15,823,962	15,823,962
Finance lease receivable	48,082,748	26,753,648	11,401,582	7,843,779	3,646,833	18,877,713	116,606,303
Total	48,082,748	26,753,648	11,401,582	7,843,779	3,646,833	35,932,189	133,660,779

At 31 December 2009, the bank had no off-balance sheet items.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)

3.1.6 Credit quality per class of financial assets

The Bank had impaired finance leases at 31 December 2010 amounting to USD 29,290,408 (2009: USD 23,839,132). The Bank has made provision at 31 December 2010 of USD 3,930,050 (2009: USD 2,177,447) against the impaired leases. Finance lease receivables less than ninety days overdue are not considered impaired, unless other information is available to indicate the contrary. The status of the financial lease receivables is summarised below:

	31 December 2010			
	Up to 3 months	More than 3 but less than 6 months	More than 6 months	Total
Neither past due nor impaired	29,080,852	-	-	29,080,852
Past due but not impaired	24,203,609	1,509,164	6,787,448	32,500,221
Impaired	-	317,277	28,973,131	29,290,408
Gross	53,284,461	1,826,441	35,760,579	90,871,481
Less: Impairment allowance				(3,930,050)
Net				86,941,431

	31 December 2009			
	Up to 3 months	More than 3 but less than 6 months	More than 6 Months	Total
Finance leases				
Neither past due nor impaired	75,827,855	-	-	75,827,855
Past due but not impaired	-	13,315,248	3,624,068	16,939,316
Impaired	-	-	26,016,579	26,016,579
Gross	75,827,855	13,315,248	29,640,647	118,783,750
Less: Impairment allowance				(2,177,447)
Net				116,606,303

The table below presents an analysis of financial assets by external rating designation at 31 December 2010 and 2009:

	At 31 December 2010			
	Cash and balances with banks	Placements with banks	Finance lease receivables	Total
A	7,188,666	-	-	7,188,666
B+	-	-	-	-
Not rated	961,794	27,664,758	86,941,431	115,567,983
Total	8,150,460	27,664,758	86,941,431	122,756,649

	At 31 December 2009			
	Cash and balances with bank	Placements with banks	Finance lease receivables	Total
A	539,013	-	-	539,013
B+	691,501	15,823,962	-	16,515,463
Not rated	-	-	116,606,303	116,606,303
Total	1,230,514	15,823,962	116,606,303	133,660,779

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)

3.2 Market risk

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

3.2.1 Price risk

The Bank is not significantly exposed to price risk at 31 December 2010 and 31 December 2009. All the Bank's available-for-sale investments are unlisted equity instruments which are carried at cost less impairment.

3.2.2 Currency risk

The Banks' exposure to currency risk is limited to its investment in Pinnacle Holding Limited amounting to USD 5,118,843 which is equivalent to GBP 2,500,000.

3.2.3 Interest rate risk management

The Bank is exposed to the effects of fluctuations in the prevailing levels of interest rates on cash flows. The Board of Directors sets limits and the management monitors the level of mismatch of interest rate re-pricing that may be undertaken by the Bank.

During the year ended 31 December 2010, had the interest rates on net interest bearing assets increased/decreased by 100 basis points, with all other variables remaining constant, the impact on the results and equity of Bank would have been as follows:

	Impact on the results and equity of the Bank	
	31 December 2010	31 December 2009
Changes of \pm 100 basis points in interest rates:	<u>\pm184,905</u>	<u>\pm134,143</u>

The remaining assets and liabilities of the Bank carry fixed interest rates and hence are not subject to fluctuation in interest rates.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)

3.2.3 Interest rate risk management (continued)

The table below summarises the Bank's exposure to interest rate risk. It includes the Bank's financial instruments categorised by earlier of contractual re-pricing or maturity dates:

	2010					
	Up to	Interest rate sensitive			Non- interest	
	1 month	1-3	3-12	1-5	rate	Total
		months	months	years	sensitive	
Cash and balances with banks	-	-	-	-	8,150,460	8,150,460
Placements with bank	9,992,085	5,072,673	12,600,000	-	-	27,664,758
Finance lease receivables	10,355,185	8,149,548	28,675,141	39,761,557	-	86,941,431
Investment securities available for sale	-	-	-	-	20,796,950	20,796,950
Property and equipment	-	-	-	-	2,607,043	2,607,043
Other assets	-	-	-	-	1,303,150	1,303,150
Assets of disposal group classified as held for sale					71,434	71,434
Total assets	20,347,270	13,222,221	41,275,141	39,761,557	32,929,037	147,535,226
Account payables and other liabilities	-	-	-	-	664,333	664,333
Due to banks	3,039,939	2,727,273	21,818,182	-	-	27,585,394
Due to related parties	-	-	17,875,312	-	205,098	18,080,410
Liabilities of disposal group included in assets classified as held for sale					538,178	538,178
Total liabilities	3,039,939	2,727,273	39,693,494	-	1,407,609	46,868,315
Total interest repricing gap	17,307,331	10,494,948	1,581,647	39,761,557		

	2009					
	Up to	Interest rate sensitive			Non- interest	
	1 month	1-3	3-12	1-5	rate	Total
		months	months	years	sensitive	
Cash and balances with banks	-	-	-	-	1,230,514	1,230,514
Placements with banks	-	5,587,931	10,236,031	-	-	15,823,962
Finance lease receivables	5,691,977	7,511,515	32,159,938	71,242,873	-	116,606,303
Investment securities available for sale	-	-	-	-	20,121,950	20,121,950
Property and equipment	-	-	-	-	1,252,776	1,252,776
Other assets	-	-	-	-	552,368	552,368
Total assets	5,691,977	13,099,446	42,395,969	71,242,873	23,157,608	155,587,873
Account payables and other liabilities	-	-	-	-	801,628	801,628
Due to banks	-	2,051,506	13,412,045	5,454,546	-	20,918,097
Due to related parties	419,496	10,223,879	2,324,739	16,670,963	54,500	29,693,577
Total liabilities	419,496	12,275,385	15,736,784	22,125,509	856,128	50,015,990
Total interest repricing gap	5,272,481	824,061	26,659,185	49,117,364		

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)**3.3 Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations when they fall due. To limit this risk, management has arranged reasonably diversified funding sources. During the year the Bank has obtained borrowing facilities from several financial institutions, including related parties. The Senior Management of the Bank monitors future cash flows and liquidity on a regular basis.

3.3.1 Non-derivative cash flows

The table below sets out the non-derivative cash flows of the Bank by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, where as the Bank manages the inherent liquidity risk based on expected undiscounted cash flows:

	2010				
	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
Accounts payable and other liabilities	243,593	17,577	403,163	-	664,333
Due to banks	3,366,818	3,015,854	22,990,565	-	29,373,237
Due to related parties	7,250	-	19,971,170	-	19,978,420
Total liabilities	3,617,661	3,033,431	43,364,898	-	50,036,105
Total assets	29,900,852	26,982,188	40,402,503	72,175,791	169,461,335
					2009
	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
Accounts payable and other liabilities	101,761	62,627	217,855	419,385	801,628
Due to banks	-	2,513,569	14,023,844	5,571,708	22,109,121
Due to related parties	463,388	10,511,429	3,311,745	18,568,973	32,855,535
Total Liabilities	565,149	13,087,625	17,553,444	24,560,066	55,766,284
Total assets	8,040,855	15,725,736	53,943,314	106,883,856	184,593,761

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.2 Liquidity risk management process

The liquidity risk management process, as carried out by the Bank and monitored by the senior management, includes:

- Day to day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Maintaining a portfolio of lease receivables that can be reasonably sold to third party to meet unforeseen interruption to cash flow; and
- Managing the concentration and profile of debt maturities in the future.

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by the Senior Management and the Executive Committee to maintain a diversified portfolio.

3.4 Fair value of financial assets and liabilities

The estimated fair value of the Bank's other assets and liabilities are not significantly different from their respective carrying values.

3.5 Capital management

The Bank's objective when managing its capital, which comprises shareholders' equity, is to maintain a strong capital base to support the development of its business and to comply with the capital adequacy requirements set by the Central Bank of Bahrain. In order to achieve this objective, the shareholders have injected additional capital as required to support the Bank's business and the Bank has not distributed any cash dividend since its inception.

FIRST LEASING BANK BSC (c)**Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)**

(All amounts expressed in United States Dollars unless otherwise stated)

3. Financial risk management (continued)**3.6 Financial instruments by category**

The table below summarises the Bank's exposures classified as loans and receivable and investments available-for-sale.

			2010
	Loans and receivable	Investments available-for-sale	Total
Assets			
Cash and balances with banks	8,150,460	-	8,150,460
Placements with bank	27,664,758	-	27,664,758
Finance lease receivables	86,941,431	-	86,941,431
Investments available-for-sale	-	20,796,950	20,796,950
Total	122,756,649	20,796,950	143,553,599

			2009
	Loans and receivable	Investments available-for-sale	Total
Assets			
Cash and balances with banks	1,230,514	-	1,230,514
Placements with bank	15,823,962	-	15,823,962
Finance lease receivables	116,606,303	-	116,606,303
Investments available-for-sale	-	20,121,950	20,121,950
Total	133,660,779	20,121,950	153,782,729

At 31 December 2010 and 31 December 2009, all the Bank's financial liabilities were financial liabilities carried at amortised cost.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

(All amounts expressed in United States Dollars unless otherwise stated)

4. Critical accounting estimates and judgements in applying accounting policies

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

a) Impairment of finance lease receivable

The Bank reviews its portfolio of finance lease receivables on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A key component in determining impairment loss is the orderly liquidated value of assets securing finance lease receivables. When the orderly liquidation value of assets securing finance leases differ by +/-1%, the impairment provision would be increased or decreased by USD 305,308.

b) Impairment of investment securities available-for-sale

The Bank determines that investment securities available-for-sale are impaired when there has been a significant or prolonged decline in the fair value below its cost or when there is objective evidence that the recoverable amount is lower than the carrying amount. This determination requires judgment. In making this judgment, the Bank evaluates amongst other factors, whether there is deterioration in the financial health of the investee, industry or sector performance, changes in technology, and operational and financing cash flows. For unquoted securities held at cost less impairment, management primarily relies on information communicated by the investment manager or lead investor.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

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5. Finance lease receivables

	2010	2009
<u>Gross investment in finance lease receivables:</u>		
Not later than 1 year	63,778,407	62,186,694
Later than 1 year and not later than 5 years	42,791,074	80,475,727
	<u>106,569,481</u>	<u>142,662,421</u>
Unearned future finance income on finance leases	(15,698,000)	(23,878,671)
Provision for impairment	(3,930,050)	(2,177,447)
	<u>86,941,431</u>	<u>116,606,303</u>
Net investment in finance leases		
The net investment in finance leases is analysed as follows:		
Not later than 1 year	47,179,874	45,363,431
Later than 1 year and not later than 5 years	39,761,557	71,242,872
	<u>86,941,431</u>	<u>116,606,303</u>

Reconciliation of finance lease receivables

	2010	2009
At 1 January	116,606,303	121,966,313
Finance leases issued	4,250,000	23,022,517
Decrease in finance lease income receivable	(371,219)	(22,666)
Principal repayment received	(29,613,603)	(26,182,414)
Provision for impairment	(3,930,050)	(2,177,447)
	<u>86,941,431</u>	<u>116,606,303</u>

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

(All amounts expressed in United States Dollars unless otherwise stated)

6. Investment securities available for sale

Unlisted	2010	2009
Equities securities available-for-sale		
Gross	21,385,185	20,710,185
Provision for impairment	(588,235)	(588,235)
	<u>20,796,950</u>	<u>20,121,950</u>

The movement in equity securities available-for-sale is summarised as follows:

	2010	2009
At 1 January	20,121,950	20,525,513
Additions	675,000	250,000
Disposals / redemptions	-	(65,328)
Impairment losses	-	(588,235)
At 31 December	<u>20,796,950</u>	<u>20,121,950</u>

All the Bank unlisted equity securities available-for-sale are stated at cost less impairment, as their fair values cannot be reliably estimated.

7. Property and equipment

	Fixtures and fittings	Office equipment	Operating lease assets	Total
2010				
<u>Cost</u>				
At 1 January 2010	299,949	762,150	604,751	1,666,850
Additions during the year	2,122	147,548	1,770,000	1,919,670
Impairment charges during the year	-	-	(316,162)	(316,162)
Disposals during the year	-	(28,404)	-	(28,404)
31 December 2010	<u>302,071</u>	<u>881,294</u>	<u>2,058,589</u>	<u>3,241,954</u>
<u>Accumulated depreciation</u>				
At 1 January 2010	152,657	223,506	37,911	414,074
Charge for the year	59,193	159,779	30,240	249,212
Disposals during the year	-	(28,375)	-	(28,375)
31 December 2010	<u>211,850</u>	<u>354,910</u>	<u>68,151</u>	<u>634,911</u>
Net book value as of 31 December 2010	<u>90,221</u>	<u>526,384</u>	<u>1,990,438</u>	<u>2,607,043</u>
2009				
<u>Cost</u>				
At 1 January 2009	299,949	619,780	435,813	1,355,542
Additions during the year	-	175,996	168,938	344,934
Disposals during the year	-	(33,626)	-	(33,626)
31 December 2009	<u>299,949</u>	<u>762,150</u>	<u>604,751</u>	<u>1,666,850</u>
<u>Accumulated depreciation</u>				
At 1 January 2009	92,697	153,001	9,079	254,777
Charge for the year	59,960	100,542	28,832	189,334
Disposals during the year	-	(30,037)	-	(30,037)
31 December 2009	<u>152,657</u>	<u>223,506</u>	<u>37,911</u>	<u>414,074</u>
Net book value as of 31 December 2009	<u>147,292</u>	<u>538,644</u>	<u>566,840</u>	<u>1,252,776</u>

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2009 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

7. Property and equipment (continued)

The table below summarises the Bank's operating leases rental income.

<u>Operating lease rental income:</u>	2010	2009
Not later than 1 year	59,121	135,136
Later than 1 year and not later than 5 years	-	59,121
	<u>59,121</u>	<u>194,257</u>
 Operating lease rental income for the year	 <u>134,436</u>	 <u>126,716</u>

8. Other assets

	2010	2009
Prepayments	717,462	418,603
Accrued income receivable	293,040	62,937
Other receivables	292,648	70,828
	<u>1,303,150</u>	<u>552,368</u>

9. Non-current assets held for sale and discontinued operations

The assets and liabilities related to FLB Capital Limited (100% owned subsidiary located at DIFC, Dubai) have been presented as held for sale following the approval of the Bank's Board of Directors on 6 October 2010 to liquidate FLB Capital Limited. The liquidation is expected to be completed by May 2011.

(a) Total cash flows of disposal group classified as held for sale:

	2010	2009
Operating activities	543,345	-
Investing activities	(5,206)	-
Financing activities	-	-
Total cash flows	<u>538,139</u>	<u>-</u>

(b) Assets of disposal group classified as held for sale:

	2010	2009
Cash and balances with bank	6,407	-
Fixed assets	2,718	-
Receivables and deposits	62,309	-
Total assets of disposal group	<u>71,434</u>	<u>-</u>

(c) Liabilities of disposal group classified as held for sale:

	2010	2009
Creditors being total liabilities of disposal group	<u>538,178</u>	<u>-</u>

(d) Loss from discontinued operations.

Analysis of the result of discontinued operations, and the result recognised on the measurement of assets or disposal group, is as follows:

	2010	2009
Revenue	266,592	-
Expenses	(1,485,982)	-
Loss from discontinued operations	<u>(1,219,390)</u>	<u>-</u>

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

(All amounts expressed in United States Dollars unless otherwise stated)

10. Due to banks

	2010	2009
Current portion of amounts due to banks	27,585,394	15,463,551
Non-current portion of amounts due to banks	-	5,454,546
	27,585,394	20,918,097

In amounts due to banks variable-interest loans as 31 December 2010 amounted to USD 27,585,394 (2009: USD 12,727,273) and there were no fixed-interest loans as of 31 December 2010 (2009: USD 7,957,500).

11. Transactions with related parties

Related parties include the shareholders, businesses in which shareholders, individually or combined, have control or significant influence over the Bank's operations, directors, key management personnel and companies whose ownership and management are common with that of the Bank's. The Bank carries out transactions in the normal course of business with related parties. There were no impaired financial assets with respect to related party exposures as of 31 December 2010 and 31 December 2009.

Statement of comprehensive income

The statement of comprehensive income reflects the following items in respect of transactions with related parties during the year:

	2010	2009
<u>Ithmaar Bank B.S.C. (a shareholder)</u>		
- Profit from placements with bank	832,440	855,058
- Finance cost	1,589,178	2,875,048
- Other operating expenses	61,788	34,040
<u>Solidarity Group Holding B.S.C. (c) - (company under common control)</u>		
- Commission from funds under management	9,640	9,640
- Other operating expenses	125,941	66,227
<u>Overland Capital Group – (a previous shareholder)</u>		
- Management fee	-	325,000
- Other operating expenses	-	3,500
<u>Faisal Islamic Bank of Egypt – (a shareholder)</u>		
- Finance cost	-	584,581
<u>Others</u>		
- Board fees and other related expenses	137,703	130,427
- Key management compensation		
- Salaries and short term benefits	1,334,305	1,409,626
- Leaving indemnity	21,787	23,865

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

(All amounts expressed in United States Dollars unless otherwise stated)

11. Transactions with related parties (continued)**Statement of financial position**

At 31 December the Bank had the following balances with related parties. The effective interest earned on placements with banks is approximately 4.08% per annum (2009: 3.81%).

	2010	2009
<u>Cash and balances with banks</u>		
Ithmaar Bank B.S.C. (a shareholder)	960,669	688,887
<u>Placements with banks</u>		
Ithmaar Bank B.S.C. (a shareholder)	27,664,758	15,823,962
<u>Due to related parties:</u>		
Ithmaar Bank B.S.C. (a shareholder)	17,937,100	19,527,179
Faisal Islamic Bank of Egypt – (a shareholder)	-	10,141,898
Overland Capital Group (a previous shareholder)	10,119	-
Solidarity Group Holding B.S.C. (c) - (company under common control)	125,941	23,500
Others	7,250	1,000
	<u>18,080,410</u>	<u>29,693,577</u>
	2010	2009
<u>Ithmaar Bank B.S.C. (a shareholder)</u>		
Current portion of amounts due to Ithmaar Bank B.S.C.	17,937,100	2,826,217
Non-current portion of amounts due to Ithmaar Bank B.S.C	-	16,700,962
	<u>17,937,100</u>	<u>19,527,179</u>

Amounts due to Ithmaar Bank only include financial instruments classified as liabilities at amortised cost and are fixed-interest deposits maturing during 2011.

	2010	2009
<u>Faisal Islamic Bank of Egypt – (a shareholder)</u>		
Current portion of amounts due to Faisal Islamic Bank of Egypt	-	10,141,898
Non-current portion of amounts due Faisal Islamic Bank of Egypt	-	-
	<u>-</u>	<u>10,141,898</u>

In 2009, amounts due to Faisal Islamic Bank of Egypt only include financial instruments classified as liabilities at amortised cost and are fixed-interest loans matured during 2010.

FIRST LEASING BANK BSC (c)**Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)**
(All amounts expressed in United States Dollars unless otherwise stated)**12. Accounts payable and other liabilities**

	2010	2009
Advance from customers	345,172	524,570
Accrued expenses	135,857	106,962
Leaving indemnity	33,179	101,226
Other payables	150,125	68,870
	<hr/>	<hr/>
	664,333	801,628

13. Share capital

	2010	2009
<u>Authorised</u>		
300 million ordinary shares of USD 1 each	300,000,000	300,000,000
	<hr/>	<hr/>
<u>Issued and fully paid</u>		
100 million ordinary shares of USD 1 each	100,000,000	100,000,000

14. Statutory reserve

As required by the Bahrain Commercial Companies Law 2001, 10% of the profit for the year is required to be transferred to the statutory reserve until such reserve equals to 50% of the issued share capital of the Bank. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law 2001. No transfers have been made for the current year as there was a net loss as of 31 December 2010 (2009: USD 36,752).

15. Fee and commission income

	2010	2009
Management fee from financing activities	245,636	307,785
Commission from funds under management	108,580	108,580
	<hr/>	<hr/>
	354,216	416,365

Commission from funds under management represents mudaraba fee earned from managing the funds contributed by related parties and non related parties in finance lease transactions in accordance with the special purpose mudaraba agreement.

16. Other income

	2010	2009
Liquidated damages fees	300,541	258,027
Early settlement fees	25,044	26,586
Restructuring fees	-	23,326
LC mark up income	-	7,065
Other income	18,058	5,249
	<hr/>	<hr/>
	343,643	320,253

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

17. Other operating expenses

Other operating expenses include the following:

	2010	2009
Professional and regulatory expenses	256,367	342,793
Management fee	-	325,000
Occupancy costs	287,953	253,046
Legal expenses	326,559	196,115
Depreciation expenses	249,210	189,334
Board of directors and annual general meeting expenses	137,703	130,427
Business travel	79,599	109,089
Marketing and promotions	22,614	27,935
Other expenses	283,257	219,156
	<u>1,643,262</u>	<u>1,792,895</u>

The management fee was in respect of a contract with Overland Capital Group. The Board of Directors at their meeting held on 8 July 2009 decided not to renew the management contract for the year 2010 and Overland Capital Group were advised accordingly.

18. Off-balance sheet items*Commitments*

The Bank commitments in respect of finance lease contracts at 31 December 2010 amounted to USD 2,300,000 (2009: USD NIL).

Participations

For the purposes of financing lease transactions, the Bank has obtained contributions for participation in the syndicated financing from participants at 31 December 2010 amounted to USD 3,522,130 (2009: USD 4,961,838). The Bank's obligation is limited to making payment to the participants and is conditional upon receiving the corresponding payments from the lessee and the participants shall have no recourse to the Bank in the event of any failure by the lessee to make any such payment.

FIRST LEASING BANK BSC (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

19. Capital management

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Bahrain, for supervisory purposes. The required information is filed with the Central Bank of Bahrain on a quarterly basis.

The Central Bank of Bahrain requires each bank or banking Group to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the minimum of 12%.

The Bank's Tier 1 regulatory capital comprises share capital, accumulated gains and disclosed reserves created by appropriations of retained earnings.

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Bahrain. These ratios measure "risk to assets" by comparing the Bank's net available capital with its balance sheet assets, commitments and contingencies at a weighted amount to reflect their relative risk. The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2010.

The net capital base of the Bank is as follows:

Tier 1 core capital	2010	2009
Share capital	100,000,000	100,000,000
Statutory reserve	788,534	788,534
Accumulated (losses)/ retained earnings	(122,623)	3,386,037
	<u>100,666,911</u>	<u>104,174,571</u>

The Risk to Assets ratio of the Bank is as follows:

	2010		2009	
	Total	Risk weight	Total	Risk weight
On balance sheet	147,535,226		155,587,873	
Off balance sheet (Note 18)	2,300,000		-	
Total risk weight (A)		<u>154,428,000</u>		<u>173,912,000</u>
Total capital base (B)		<u>100,666,911</u>		<u>104,174,571</u>
Risk to Assets ratio (B / A)		<u>65.2%</u>		<u>59.9%</u>