

FIRST LEASING BANK BSC (c)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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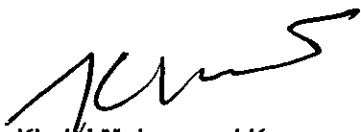
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FIRST LEASING BANK BSC (c)

Directors' Report for the year ended 31 December 2009 (continued)

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

24 February 2010

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 financial statements of First Leasing Bank BSC (c) (the Bank) which comprise the statement of financial position as at 31 December 2009 and the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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 accounts 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 2009.


PricewaterhouseCoopers.
24 February 2010
Manama, Kingdom of Bahrain

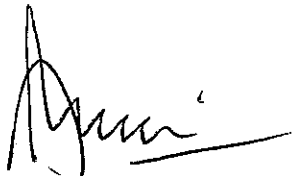
FIRST LEASING BANK BSC (c)**Statement of financial position**

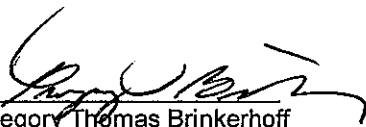
(All amounts expressed in United States Dollars unless otherwise stated)

| | | As at 31 December | |
|--|-------------|--------------------------|--------------------|
| | Note | 2009 | 2008 |
| ASSETS | | | |
| Cash and balances with banks | | 1,230,514 | 1,613,619 |
| Placements with banks | | 15,823,962 | 33,353,493 |
| Finance lease receivables | 5 | 116,606,303 | 121,966,313 |
| Investment securities available-for-sale | 6 | 20,121,950 | 20,525,513 |
| Property and equipment | 7 | 1,252,776 | 1,100,765 |
| Other assets | 8 | 552,368 | 814,735 |
| Total assets | | 155,587,873 | 179,374,438 |
| LIABILITIES | | | |
| Due to banks | 9 | 20,918,097 | 28,094,558 |
| Due to related parties | 10 | 29,693,577 | 46,162,441 |
| Accounts payable and other liabilities | 11 | 801,628 | 1,310,390 |
| Total liabilities | | 51,413,302 | 75,567,389 |
| EQUITY | | | |
| Share capital | 12 | 100,000,000 | 100,000,000 |
| Statutory reserve | 13 | 788,534 | 751,782 |
| Retained earnings | | 3,386,037 | 3,055,267 |
| Total equity | | 104,174,571 | 103,807,049 |
| Total liabilities and equity | | 155,587,873 | 179,374,438 |

These financial statements were approved for issue by the Board of Directors on 24 February 2010 and signed on its behalf by:


Khalid Mohamed Kanoo
Chairman


Mohamed Hussain
Director


Gregory Thomas Brinkerhoff
Chief Executive Officer


The notes on pages 10 to 34 are an integral part of these financial statements.


FIRST LEASING BANK BSC (c)**Statement of comprehensive income**


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

| | Note | <u>Year ended 31 December</u> | |
|--|------|-------------------------------|--------------------|
| | | 2009 | 2008 |
| Income from financing activities and similar income | | 9,870,432 | 7,911,849 |
| Profit on placements with banks | | 953,176 | 884,166 |
| Finance cost and similar charges | | <u>(4,399,460)</u> | <u>(1,275,935)</u> |
| | | 6,424,148 | 7,520,080 |
| Fee and commission income | 14 | 416,365 | 444,863 |
| Income from investment activities | | 707,627 | 103,614 |
| Other income | 15 | <u>320,253</u> | <u>186,856</u> |
| Total operating income | | <u>7,868,393</u> | <u>8,255,413</u> |
| Staff costs | | (2,876,965) | (3,350,086) |
| Other operating expenses | 16 | (1,792,895) | (1,762,835) |
| Loss on disposal of investment securities available for sale | | <u>(65,328)</u> | - |
| Total operating expenses excluding provisions | | <u>(4,735,188)</u> | <u>(5,112,921)</u> |
| Profit for the year prior to provision | | 3,133,205 | 3,142,492 |
| Provision for impairment | | | |
| Finance lease receivables | | (2,177,448) | (124,000) |
| Investment securities available-for-sale | | <u>(588,235)</u> | - |
| | | <u>(2,765,683)</u> | <u>(124,000)</u> |
| Profit for the year after provision | | <u>367,522</u> | <u>3,018,492</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | <u>367,522</u> | <u>3,018,492</u> |

These financial statements were approved for issue by the Board of Directors on 24 February 2010 and signed on its behalf by:


Khalid Mohamed Kanoo
Chairman


Mohamed Hussain
Director


Gregory Thomas Brinkerhoff
Chief Executive Officer

The notes on pages 10 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)**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 2008 | 100,000,000 | 449,933 | 338,624 | 100,788,557 |
| Total comprehensive income for the year | - | - | 3,018,492 | 3,018,492 |
| Statutory reserve | - | 301,849 | (301,849) | - |
| At 31 December 2008 | <u>100,000,000</u> | <u>751,782</u> | <u>3,055,267</u> | <u>103,807,049</u> |
| 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 |
| 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> |

The notes on pages 10 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)**Statement of cash flows**

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

| | Note | <u>Year ended 31 December</u> | |
|---|------|-------------------------------|---------------------|
| | | 2009 | 2008 |
| Operating activities | | | |
| Profit for the year | | 367,522 | 3,018,492 |
| <u>Adjustments for:</u> | | | |
| Depreciation | 7 | 189,334 | 135,428 |
| Income from investment securities available-for-sale | | (707,627) | (103,614) |
| Loss on disposal of property and equipment | | 2,515 | 1,498 |
| Loss on disposal of investments | | 65,328 | - |
| Provision for impairment | | 2,765,683 | 124,000 |
| | | <u>2,682,755</u> | <u>3,175,804</u> |
| <u>Changes in operating assets and liabilities:</u> | | | |
| Decrease in placements with bank | | (10,236,031) | - |
| Decrease/(increase) in finance lease receivables | | 3,182,562 | (77,702,232) |
| Decrease/(increase) in other assets | | 262,367 | (401,872) |
| (Decrease)/increase in accounts payable and other liabilities | | (508,762) | 15,870 |
| Increase in amounts due to banks | | 594,008 | 610,229 |
| Decrease in other amounts due to related parties | | (160,087) | (48,823) |
| Net cash used in operating activities | | <u>(4,183,188)</u> | <u>(74,351,024)</u> |
| Investing activities | | | |
| Purchase of property and equipment | 7 | (344,934) | (788,150) |
| Proceeds from sale of property and equipment | | 1,074 | 743 |
| Purchase of investment securities available-for-sale | 6 | (250,000) | (11,000,000) |
| Proceeds from investment securities available-for-sale | | 707,627 | 696,944 |
| Net cash generated from/(used in) investing activities | | <u>113,767</u> | <u>(11,090,463)</u> |
| Financing activities | | | |
| Proceeds from borrowed funds | | 17,957,500 | 73,890,933 |
| Repayment of borrowed funds | | <u>(42,036,746)</u> | <u>(458,750)</u> |
| Net cash (used in)/ generated from financing activities | | <u>(24,079,246)</u> | <u>73,432,183</u> |
| Net decrease in cash and cash equivalents | | <u>(28,148,667)</u> | <u>(12,009,304)</u> |
| Cash and cash equivalents at the beginning of the year | | 34,967,112 | 46,976,416 |
| Cash and cash equivalents at the end of the year | 17 | <u>6,818,445</u> | <u>34,967,112</u> |

The notes on pages 10 to 34 are an integral part of these financial statements.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009

(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 is principally engaged in the provision of finance and operating equipment leases throughout the Gulf Co-operation Council countries and others.

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 are prepared under the historical cost convention.

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

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities and investing 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. 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.

(a) Standards, amendments and interpretations effective in 2009

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

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations effective in 2009 (continued)

- Amendments to IFRS 7, 'Financial instruments: Disclosures'. The amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy and enhanced disclosures about liquidity risk. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank. The Bank measures all its available-for-sale equity investments at cost less impairment. Accordingly, there was no impact with the Bank adoption of these amendments.
- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (i.e. 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income).

The Bank has elected to present one statement: a statement of comprehensive income. The financial statements, including comparative information, have been prepared under the revised disclosure requirements.

(b) Standards, amendments and interpretations effective in 2009 but not relevant

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Bank.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14 (effective for periods commencing 1 January 2009)
- IFRS 2 (amendment), 'Share-based payment – Vesting conditions and cancellations' (effective for periods commencing 1 January 2009)
- IAS 23 (amendment), 'Borrowing costs' (effective for periods commencing 1 January 2009)
- IAS 32 (amendment) and IAS 1, 'Puttable financial instruments and obligations arising on liquidation' (effective for periods commencing 1 January 2009)
- IFRIC 13, 'Customer loyalty programmes' (effective for periods commencing 1 July 2008)
- IFRIC 15, 'Agreements for the construction of real estate' (effective for periods commencing 1 January 2009)
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for periods commencing 1 October 2008)

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to the existing standards that are not yet effective (continued)

- IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate' (effective for periods commencing 1 July 2009)
- IFRS 3, 'Business combinations'(effective for periods commencing 1 July 2009)
- IAS 27, 'Consolidated and separate financial statements' (effective for periods commencing 1 July 2009)
- IFRIC 17, 'Distribution 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)

Improvements to IFRS:

'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments. Management has assessed the impact of the above standards, amendments and interpretations to the published standards on the financial statements and have concluded that they either are not currently relevant to the Bank's financial statements or no material changes to the accounting policies are expected as a result of these amendments.

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

2.2 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

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.

2.3 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.

2.4 Dividend income

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

2.5 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.

2.6 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.6 Financial assets (continued)

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 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.

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 impairments. 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 market 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.7 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.

2.8 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.

2.9 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.

2.10 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

2. Significant accounting policies (continued)

2.11 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.

2.12 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.

2.13 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.

2.14 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.

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 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

3. Financial risk management (continued)

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 BSC) 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.

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 2009 was USD 17 million (31 December 2008: USD 30 million). The Bank's significant financial assets are primarily within the Middle East.

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

3. Financial risk management (continued)**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 | |
|---|-------|------------------------------------|-------------|
| | | 2009 | 2008 |
| Cash and balances with banks | | 1,230,514 | 1,613,619 |
| Placements with banks | | 15,823,962 | 33,353,493 |
| Finance lease receivables | 5 | 116,606,303 | 121,966,313 |
| Total credit risk exposure – on balance sheet | | 133,660,779 | 156,933,425 |
| Lease commitments – off-balance sheet | 18 | - | 4,803,000 |

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 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 receivable | 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.

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (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)****(a) Geographical sectors**

The following table breaks down the credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2008.

| | 31 December 2008 | | | | |
|------------------------------|-------------------------|-------------------|------------------------|-------------------|--------------------|
| | UAE | Bahrain | Other GCC countries | Others | Total |
| Assets | | | | | |
| Cash and balances with banks | - | 1,613,619 | - | - | 1,613,619 |
| Placements with bank | - | 33,353,493 | - | - | 33,353,493 |
| Finance lease receivable | 70,377,990 | 9,294,906 | 29,699,667 | 12,593,750 | 121,966,313 |
| Total | 70,377,990 | 44,262,018 | 29,699,667 | 12,593,750 | 156,933,425 |

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

| | 31 December 2008 | | | | |
|--------------|-------------------------|------------------|------------------------|----------|------------------|
| | UAE | Bahrain | Other GCC countries | Others | Total |
| Commitments | 1,809,000 | 2,994,000 | - | - | 4,803,000 |
| Total | 1,809,000 | 2,994,000 | - | - | 4,803,000 |

(b) Industry sectors

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 |
| Assets | | | | | | | |
| Cash and balances with banks | - | - | - | - | - | 1,230,514 | 1,230,514 |
| Placements with bank | - | - | - | - | - | 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.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (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 2008.

| | 31 December 2008 | | | | | | Total |
|------------------------------|-------------------|-------------------|-------------------|------------------|----------------|-------------------|--------------------|
| | Construction | Manufacturing | Printing | Medical | Real estate | Others | |
| Cash and balances with banks | - | - | - | - | - | 1,613,619 | 1,613,619 |
| Placements with banks | - | - | - | - | - | 33,353,493 | 33,353,493 |
| Finance lease receivable | 45,818,711 | 29,817,951 | 12,720,251 | 8,604,705 | 950,638 | 24,054,057 | 121,966,313 |
| Total | 45,818,711 | 29,817,951 | 12,720,251 | 8,604,705 | 950,638 | 59,021,169 | 156,933,425 |

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

| Assets | 31 December 2008 | | | | | | Total |
|--------------|------------------|----------------|------------------|----------|------------------|----------|------------------|
| | Construction | Manufacturing | Printing | Medical | Real estate | Others | |
| Commitments | - | 338,000 | 1,471,000 | - | 2,994,000 | - | 4,803,000 |
| Total | - | 338,000 | 1,471,000 | - | 2,994,000 | - | 4,803,000 |

3.1.6 Credit quality per class of financial assets

The Bank had impaired finance leases at 31 December 2009 amounting to USD 23,839,132 (2008: USD 2,882,332). The Bank has made provision of USD 2,177,447 (2008: USD 124,000) 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 assets is summarised below:

| | 31 December 2009 | | | Total |
|-------------------------------|------------------|------------------------------------|--------------------|--------------------|
| | Up to 3 months | More than 3 but less than 6 months | More than 6 months | |
| 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 |

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (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 (continued)**

| | 31 December 2008 | | | |
|-------------------------------|---------------------------|---|-------------------------------|--------------------|
| | Up to 3 months | More than 3 but less than 6 months | More than 6 months | Total |
| Finance leases | | | | |
| Neither past due nor impaired | 102,116,108 | - | - | 102,116,108 |
| Past due but not impaired | - | 17,718,326 | - | 17,718,326 |
| Impaired | - | 179,042 | 2,076,837 | 2,255,879 |
| Gross | 102,116,108 | 17,897,368 | 2,076,837 | 122,090,313 |
| Less: Impairment allowance | | | | (124,000) |
| Net | | | | <u>121,966,313</u> |

The table below presents an analysis of financial assets by external rating designation at 31 December 2009 and 2008:

| | At 31 December 2009 | | | |
|-----------|---|----------------------------------|--------------------------------------|--------------------|
| | Cash and balances with banks | 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 | <u>1,230,514</u> | <u>15,823,962</u> | <u>116,606,303</u> | <u>133,660,779</u> |

| | At 31 December 2008 | | | |
|-----------|--|----------------------------------|--------------------------------------|--------------------|
| | Cash and balances with bank | Placements with banks | Finance lease receivables | Total |
| A | 156,725 | - | - | 156,725 |
| B+ | 1,456,894 | 33,353,493 | - | 34,810,387 |
| Not rated | - | - | 121,966,313 | 121,966,313 |
| Total | <u>1,613,619</u> | <u>33,353,493</u> | <u>121,966,313</u> | <u>156,933,425</u> |

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 2009 and 31 December 2008. All the Bank's available-for-sale investments are unlisted equity instruments which are carried at cost less impairment.

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

3. Financial risk management (continued)

3.2.2 Currency risk

The Bank is only exposed to the currency risk with respect 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 monitors the level of mismatch of interest rate re-pricing that may be undertaken by the Bank.

During the year ended 31 December 2009, 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 2009 | 31 December 2008 |
| Changes of ± 100 basis points in interest rates: | <u>±134,143</u> | <u>±59,915</u> |

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

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:

| | 2009 | | | | | Total |
|--|--------------------------|-----------------------|------------------------|----------------------|---|--------------------|
| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Non- interest rate sensitive | |
| Cash and balances with banks | - | - | - | - | 1,230,514 | 1,230,514 |
| Placements with bank | - | 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 | <u>5,691,977</u> | <u>13,099,446</u> | <u>42,395,969</u> | <u>71,242,873</u> | <u>23,157,608</u> | <u>155,587,873</u> |
| 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 | <u>419,496</u> | <u>12,275,385</u> | <u>15,736,784</u> | <u>22,125,509</u> | <u>856,128</u> | <u>51,413,302</u> |
| Total interest repricing gap | <u>5,272,481</u> | <u>824,061</u> | <u>26,659,185</u> | <u>49,117,364</u> | | |

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

3. Financial risk management (continued)**3.2 Market risk (continued)****3.2.3 Interest rate risk management (continued)**

| | | | | | | 2008 |
|--|------------------|-------------------|-------------------------|-------------------|------------------------------------|--------------------|
| | Up to 1 month | 1-3 months | Interest rate sensitive | | Non- interest rate sensitive | Total |
| | | | 3-12 months | 1-5 years | | |
| Cash and balances with banks | - | - | - | - | 1,613,619 | 1,613,619 |
| Placements with banks | 5,000,000 | 20,737,280 | 7,616,213 | - | - | 33,353,493 |
| Finance lease receivables | 3,441,427 | 6,262,005 | 22,208,207 | 90,054,674 | - | 121,966,313 |
| Investment securities available for sale | - | - | - | - | 20,525,513 | 20,525,513 |
| Property and equipment | - | - | - | - | 1,100,765 | 1,100,765 |
| Other assets | - | - | - | - | 814,735 | 814,735 |
| Total assets | 8,441,427 | 26,999,285 | 29,824,420 | 90,054,674 | 24,054,632 | 179,374,438 |
| Account payables and other liabilities | - | - | - | - | 1,310,390 | 1,310,390 |
| Due to banks | - | 1,823,422 | 13,543,863 | 12,727,273 | - | 28,094,558 |
| Due to related parties | 419,500 | 10,251,704 | 16,608,487 | 18,668,163 | 214,587 | 46,162,441 |
| Total liabilities | 419,500 | 12,075,126 | 30,152,350 | 31,395,436 | 1,524,977 | 75,567,389 |
| Total interest repricing gap | 8,021,927 | 14,924,159 | (327,930) | 58,659,238 | | |

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.

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

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

| | 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 |

| | 2008 | | | | |
|--|--------------------------|-------------------------|--------------------------|------------------------|--------------------|
| | Up to 1 month | 1 - 3 months | 3 - 12 months | Over 1 year | Total |
| Accounts payable and other liabilities | 196,383 | 141,904 | 527,908 | 444,194 | 1,310,389 |
| Due to banks | 113,915 | 2,071,865 | 14,390,948 | 14,385,821 | 30,962,549 |
| Due to related parties | 686,637 | 11,176,559 | 18,103,202 | 20,689,370 | 50,655,768 |
| Total Liabilities | 996,935 | 13,390,328 | 33,022,058 | 35,519,385 | 82,928,706 |
| | | | | | |
| Total assets | 5,906,113 | 34,437,880 | 37,902,915 | 131,246,163 | 209,493,071 |

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.

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

3. Financial risk management (continued)**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.

3.6 Financial instruments by category

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

| | | | 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 receivable | 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 |
| Liabilities | | | |
| Due to banks | 20,918,097 | - | 20,918,097 |
| Due to related parties | 29,693,577 | - | 29,693,577 |
| Total | 50,611,674 | - | 50,611,674 |
| 2008 | | | |
| | Loans and receivable | Investments available-for- sale | Total |
| Assets | | | |
| Cash and balances with banks | 1,613,619 | - | 1,613,619 |
| Placements with bank | 33,353,493 | - | 33,353,493 |
| Finance lease receivable | 121,966,313 | - | 121,966,313 |
| Investments available for sale | - | 20,525,513 | 20,525,513 |
| Total | 156,933,425 | 20,525,513 | 177,458,938 |
| Liabilities | | | |
| Due to banks | 28,094,558 | - | 28,094,558 |
| Due to related parties | 46,162,441 | - | 46,162,441 |
| Total | 74,256,999 | - | 74,256,999 |

FIRST LEASING BANK BSC (c)

Notes to the financial statements for the year ended 31 December 2009 (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 where the orderly liquidation value of assets securing finance leases differs by +/-1%, the impairment provision would be increased or decreased by USD 138,024.

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 a 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.

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

5. Finance lease receivables

| | 2009 | 2008 |
|--|--------------------|--------------------|
| <u>Gross investment in finance leases receivables:</u> | | |
| Not later than 1 year | 62,186,694 | 42,248,443 |
| Later than 1 year and not later than 5 years | 80,475,727 | 103,354,296 |
| | <u>142,662,421</u> | <u>145,602,739</u> |
| Unearned future finance income on finance leases | (23,878,671) | (23,512,426) |
| Provision for impairment | (2,177,447) | (124,000) |
| | <u>116,606,303</u> | <u>121,966,313</u> |
| Net investment in finance leases | | |
| | <u>116,606,303</u> | <u>121,966,313</u> |
| The net investment in finance leases is analysed as follows: | | |
| Not later than 1 year | 45,363,431 | 31,911,640 |
| Later than 1 year and not later than 5 years | 71,242,872 | 90,054,673 |
| | <u>116,606,303</u> | <u>121,966,313</u> |

Reconciliation of finance leases receivable

| | 2009 | 2008 |
|--|--------------------|--------------------|
| At 1 January | 121,966,313 | 44,388,081 |
| Finance leases issued | 23,022,517 | 96,903,693 |
| (Decrease)/increase in finance lease income receivable | (22,666) | 581,722 |
| Principal repayment received | (26,182,414) | (13,783,183) |
| Finance lease sold | - | (6,000,000) |
| Provision for impairment | (2,177,447) | (124,000) |
| | <u>116,606,303</u> | <u>121,966,313</u> |

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

6. Investment securities available for sale

| Unlisted | 2009 | 2008 |
|--|-------------------|-------------------|
| Equities securities available-for-sale | | |
| Gross | 20,710,185 | 20,252,513 |
| Provision for impairment | (588,235) | - |
| | <u>20,121,950</u> | <u>20,525,513</u> |

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

| | 2009 | 2008 |
|-------------------------|-------------------|-------------------|
| At 1 January | 20,525,513 | 10,118,843 |
| Additions | 250,000 | 11,000,000 |
| Disposals / redemptions | (65,328) | (593,330) |
| Impairment losses | (588,235) | - |
| At 31 December | <u>20,121,950</u> | <u>20,525,513</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 |
|---------------------------------------|------------------------------|-------------------------|-------------------------------|------------------|
| 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> |
| 2008 | | | | |
| <u>Cost</u> | | | | |
| At 1 January 2008 | 248,892 | 328,514 | - | 577,406 |
| Additions during the year | 51,057 | 301,280 | 435,813 | 788,150 |
| Disposals during the year | - | (10,014) | - | (10,014) |
| 31 December 2008 | <u>299,949</u> | <u>619,780</u> | <u>435,813</u> | <u>1,355,542</u> |
| <u>Accumulated depreciation</u> | | | | |
| At 1 January 2008 | 35,178 | 91,944 | - | 127,122 |
| Charge for the year | 57,519 | 68,830 | 9,079 | 135,428 |
| Disposals during the year | - | (7,773) | - | (7,773) |
| 31 December 2008 | <u>92,697</u> | <u>153,001</u> | <u>9,079</u> | <u>254,777</u> |
| Net book value as of 31 December 2008 | <u>207,252</u> | <u>466,779</u> | <u>426,734</u> | <u>1,100,765</u> |

FIRST LEASING BANK BSC (c)**Notes to the 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.

| | 2009 | 2008 |
|--|----------------|----------------|
| <u>Operating lease rental income:</u> | | |
| Not later than 1 year | 450,730 | 126,716 |
| Later than 1 year and not later than 5 years | 7,720 | 404,410 |
| | <u>458,450</u> | <u>531,126</u> |
| | | |
| Operating lease rental income for the year | <u>126,716</u> | <u>36,715</u> |

8. Other assets

| | 2009 | 2008 |
|---------------------------|----------------|----------------|
| Prepayments | 418,603 | 543,176 |
| Accrued income receivable | 62,937 | 210,937 |
| Other receivables | 70,828 | 60,622 |
| | <u>552,368</u> | <u>814,735</u> |

9. Due to banks

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Current portion of amounts due to banks | 15,463,551 | 15,367,285 |
| Non-current portion of amounts due to banks | 5,454,546 | 12,727,273 |
| | <u>20,918,097</u> | <u>28,094,558</u> |

Included in amounts due to banks are fixed-interest deposits amounting to USD 7,957,500 (2008: USD 7,957,500) and variable-interest deposits amounting to USD 12,727,273 (2008: USD 20,000,000).

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

10. 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 2009 and 31 December 2008.

Statement of comprehensive income

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

| | 2009 | 2008 |
|--|-----------|-----------|
| <u>Shamil Bank of Bahrain BSC (c) - (company under common control)</u> | | |
| - Profit from placements with bank | 855,058 | 675,194 |
| - Finance cost | 2,875,048 | 705,295 |
| <u>Solidarity Group Holding BSC (c) - (company under common control)</u> | | |
| - Commission from funds under management | 9,640 | 9,686 |
| - Other operating expenses | 66,227 | 53,289 |
| <u>Overland Capital Group – (a shareholder)</u> | | |
| - Management fee | 325,000 | 325,000 |
| - Other operating expenses | 3,500 | 8,100 |
| <u>Faisal Islamic Bank of Egypt – (a shareholder)</u> | | |
| - Finance cost | 584,581 | 169,722 |
| <u>Ithmaar Bank BSC – (a shareholder)</u> | | |
| - Other operating expenses | 34,040 | 30,000 |
| <u>Others</u> | | |
| - Board fees and other related expenses | 130,427 | 159,791 |
| - Key management compensation | | |
| - Salaries and short term benefits | 1,409,626 | 1,708,938 |
| - Leaving indemnity | 23,865 | 23,865 |

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

10. 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 3.81% per annum (2008: 3.65%).

| | 2009 | 2008 |
|---|-------------------|-------------------|
| <u>Cash and balances with banks</u> | | |
| Shamil Bank of Bahrain B.S.C (c) – (company under common control) | 688,887 | 1,452,970 |
| <u>Placements with banks</u> | | |
| Shamil Bank of Bahrain B.S.C (c) – (company under common control) | 15,823,962 | 28,353,493 |
| <u>Due to related parties:</u> | | |
| Shamil Bank of Bahrain B.S.C (c) – (company under common control) | 19,497,179 | 35,778,762 |
| Faisal Islamic Bank of Egypt – (a shareholder) | 10,141,898 | 10,169,722 |
| Overland Capital Group (a shareholder) | - | 10,987 |
| Solidarity Group Holding BSC (c) - (company under common control) | 23,500 | 48,792 |
| Ithmaar Bank B.S.C – (a shareholder) | 30,000 | 98,178 |
| Others | 1,000 | 56,000 |
| | <u>29,693,577</u> | <u>46,162,441</u> |

| | 2009 | 2008 |
|--|-------------------|-------------------|
| <u>Shamil Bank of Bahrain B.S.C (c) – (company under common control)</u> | | |
| Current portion of amounts due to Shamil Bank of Bahrain | 2,826,217 | 16,193,100 |
| Non-current portion of amounts due to Shamil Bank of Bahrain | 16,670,963 | 19,585,663 |
| | <u>19,497,180</u> | <u>35,778,762</u> |

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

| | 2009 | 2008 |
|---|-------------------|-------------------|
| <u>Faisal Islamic Bank of Egypt – (a shareholder)</u> | | |
| Current portion of amounts due to Faisal Islamic Bank of Egypt | 10,141,898 | 10,169,722 |
| Non-current portion of amounts due Faisal Islamic Bank of Egypt | - | - |
| | <u>10,141,898</u> | <u>10,169,722</u> |

Amounts due to Faisal Islamic Bank of Egypt only include financial instruments classified as liabilities at amortised cost and are fixed-interest deposits maturing during 2010

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

11. Accounts payable and other liabilities

| | 2009 | 2008 |
|------------------------|----------------|------------------|
| Advance from customers | 524,570 | 684,396 |
| Accrued expenses | 106,962 | 103,077 |
| Leaving indemnity | 101,226 | 74,138 |
| Other payables | 68,870 | 448,779 |
| | <u>801,628</u> | <u>1,310,390</u> |

12. Share capital

| | 2009 | 2008 |
|---|--------------------|--------------------|
| <u>Authorised</u> | | |
| 300 million ordinary shares of USD 1 each | <u>300,000,000</u> | <u>300,000,000</u> |
| <u>Issued and fully paid</u> | | |
| 100 million ordinary shares of USD 1 each | <u>100,000,000</u> | <u>100,000,000</u> |

13. 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. During the year, an amount of USD 36,752 (2008: USD 301,849) has been transferred to the statutory reserve.

14. Fee and commission income

| | 2009 | 2008 |
|--|----------------|----------------|
| Management fee (Financing activities) | 307,785 | 369,217 |
| Commission from funds under management | 108,580 | 75,646 |
| | <u>416,365</u> | <u>444,863</u> |

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.

15. Other income

| | 2009 | 2008 |
|-------------------------|----------------|----------------|
| Liquidated damages fees | 258,027 | 4,714 |
| Early settlement fees | 26,586 | - |
| Restructuring fees | 23,326 | 20,880 |
| LC mark up income | 7,065 | 103,399 |
| Other income | 5,249 | 57,863 |
| | <u>320,253</u> | <u>186,856</u> |

FIRST LEASING BANK BSC (c)**Notes to the financial statements for the year ended 31 December 2009 (continued)**

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

16. Other operating expenses

Other operating expenses include the following:

| | 2009 | 2008 |
|--|------------------|------------------|
| Professional and regulatory expenses | 342,793 | 213,983 |
| Management fee (Note 10) | 325,000 | 325,000 |
| Occupancy costs | 253,046 | 255,676 |
| Legal expenses | 196,115 | 85,443 |
| Depreciation expenses | 189,334 | 135,428 |
| Board of directors and annual general meeting expenses | 130,427 | 159,791 |
| Business travel | 109,089 | 212,233 |
| Marketing and promotions | 27,935 | 162,019 |
| Other expenses | 219,156 | 213,262 |
| | <u>1,792,895</u> | <u>1,762,835</u> |

The management fee arises from a contract with Overland Capital Group (Note 10). The contract is automatically renewed on 31 December of each year unless 90 days notice is given. The Board of Directors at their meeting held on 8th July 2009 decided not to renew the management contract and Overland Capital Group were advised accordingly. The contract amount is USD 325,000 for year 2009 (2008: USD 325,000).

17. Cash and cash equivalents

| | 2009 | 2008 |
|--|---------------------|-------------------|
| Cash and cash equivalents comprise: | | |
| Cash and balances with banks | 1,230,514 | 1,613,619 |
| Placements with bank | 15,823,962 | 33,353,493 |
| | <u>17,054,476</u> | <u>34,967,112</u> |
| Less: Placements with banks maturing within 6 months | <u>(10,236,031)</u> | - |
| | <u>6,818,445</u> | <u>34,967,112</u> |

18. Off -balance sheet items*Commitments*

The Bank had no commitments in respect of finance lease contracts at 31 December 2009 (2008: USD 4,803,000).

Participations

For the purposes of financing lease transactions, the Bank has obtained contributions for participation in the syndicated financing from participants amounting to USD 4,961,838 at 31 December 2009 (2008: USD 6,457,854). 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 financial statements for the year ended 31 December 2009 (continued)**

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

19. Capital adequacy

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 2009.

The net capital base of the Bank is as follows:

| | 2009 | 2008 |
|----------------------------|--------------------|--------------------|
| Tier 1 core capital | | |
| Share capital | 100,000,000 | 100,000,000 |
| Statutory reserve | 788,534 | 751,782 |
| Retained earnings | 3,386,037 | 3,055,267 |
| | <u>104,174,571</u> | <u>103,807,049</u> |

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

| | <u>2009</u> | | <u>2008</u> | |
|------------------------------|-------------|--------------------|-------------|--------------------|
| | Total | Risk weight | Total | Risk weight |
| On balance sheet | 155,587,873 | | 179,374,438 | |
| Off balance sheet (Note 18) | - | | 4,803,000 | |
| Total risk weight (A) | | 177,541,000 | | 171,052,000 |
| Total capital base (B) | | <u>104,174,571</u> | | <u>103,807,049</u> |
| Risk to Assets ratio (B / A) | | <u>59%</u> | | <u>61%</u> |