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Mission & Values

Mission

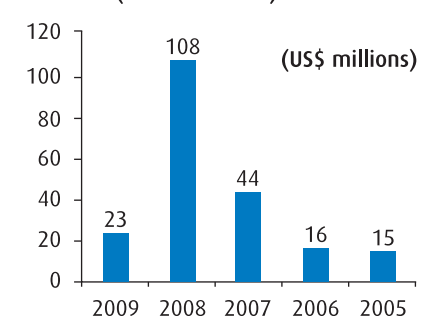
The Bank's mission is to be the premier financial services company in the Gulf specialising in equipment leasing and boutique real estate investments. The Bank aims to command the highest respect and customer loyalty while giving the shareholders a fair and consistent return.

Values

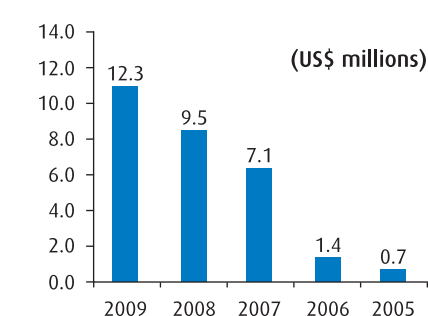
To create maximum shareholder value by combining two business models: the more lucrative, but sometimes volatile, real estate market with the stable equipment leasing market. To build shareholder value through portfolio growth and portfolio management.

Financial Highlights

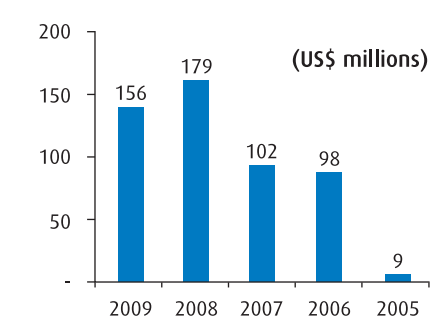
VOLUME (ORIGINATIONS)



GROSS OPERATING INCOME



TOTAL ASSETS



	31st December				
	2009	2008	2007	2006	2005
EARNINGS (US\$ '000)					
Gross Operating Income	12,267	9,531	7,101	1,436	732
Finance Cost	4,399	1,303	13	56	-
Total Operating Income	7,868	8,229	7,089	1,380	732
Total Operating Expenses	7,500	5,210	2,589	2,351	3,472
Total Comprehensive Income (Loss)	368	3,018	4,499	(971)	(2,740)
FINANCIAL POSITION (US\$ '000)					
Cash and placements with banks	17,054	34,967	46,976	76,859	493
Finance lease receivables	116,606	121,966	44,388	20,789	6,806
Operating lease	567	427	-	-	-
Investment securities available-for-sale (AFS)	20,122	20,526	10,119	-	-
Other assets	1,238	1,489	863	778	1,513
Total Assets	155,588	179,374	102,346	98,426	8,812
FINANCED BY (US\$ '000)					
Owner's equity	104,175	103,807	100,789	96,289	8,260
Due to banks & other liabilities	51,413	75,567	1,558	2,137	552
Volume (Originations) (US\$ '000) (1)	23,441	108,128	44,148	16,180	15,093
PROFITABILITY					
Return on average equity (%)	0.3	3.0	4.5	-6.3	-33.6
Return on average assets(%)	0.2	2.4	4.5	-5.6	-32.5
ASSET QUALITY					
Finance leases as a % of total assets	74.9	68.0	43.4	21.1	77.2
Investment securities AFS as a % of total assets	12.9	11.4	9.9	0.0	0.0
LIQUIDITY					
Liquid assets ratio (%)	11.0	19.5	45.9	78.1	5.6
Number of Employees	24	27	19	8	8

(1) Gross investments of business (leases and investments) concluded during the year and included Balance Sheet and off Balance Sheet Originations.

Chairman's Message to the Shareholders

In the name of Allah, most Gracious, most Merciful

On behalf of the Board of Directors, it is my privilege to present the annual report of First Leasing Bank (FLB or Bank) for the year ended 31 December 2009.

FLB's portfolio and balance sheet did not grow in 2009 due to limited availability of capital. While our financial results reflect such loss in growth and momentum, FLB's lease portfolio generated consistent cash flow and income to adequately sustain the Bank through the year. I am pleased to report the Bank's core activities generated profit in 2009, which proved to be a very difficult year for many financial institutions. The Bank posted a positive performance while adjusting its strategy for restricted growth.

Total Income for the year grew to \$12.3 million from \$9.5 million in 2008, largely the result of a full year of income derived from prior year portfolio growth. Income from core financing activities grew to \$9.9 million from \$7.9 million in 2008. Profit Prior to Provision has remained relatively level from 2008 to 2009, at just over \$3.0 million for each year. The Bank has increased its impairment provisions for 2009 by \$2.8 million to accommodate for portfolio risk. Accordingly, Profit After Provision for 2009 is \$368,000, nominally above breakeven and significantly lower than the \$3.0 million realized in 2008. Independent of impairment provisions, the Bank continues to maintain a mismatch of higher infrastructure cost levels than what is commensurate with our present portfolio size and capital composition. This was by design in both 2008 and 2009 to maintain capability to grow our portfolio upon future capital raising events. The Bank did manage to cut operating costs by seven percent in 2009 without making any staff redundant, and continues to work toward ongoing and manageable cost reductions.

Accessing capital and leveraging the balance sheet remain the Bank's biggest challenge in reaching portfolio maturity and target return on equity for our shareholders. The adverse impact of the global economy and related constraints on borrowing, continue to limit our lease portfolio growth. In this limited growth environment, the Board and management took ongoing action to ensure portfolio performance, safeguard assets and improve the Bank infrastructure to ensure future viability and success.

On behalf of the Board of Directors, I would like to pay tribute to the leadership of the Bahrain – to His Majesty King Hamad Bin Isa Al Khalifa for his enlightened vision and reforms; to His Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, for his internationally-acknowledged humanitarian leadership; and to His Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince, for his economic initiatives and encouragement of the private sector.

I take this opportunity, also, to thank our shareholders, on behalf of the Board of Directors, for their ongoing support, our clients and business partners for their ongoing confidence and loyalty as well all the Bank's management and staff for their hard work and dedication. We also expressly thank the Central Bank of Bahrain and all regulatory authorities for their guidance and support.



Khalid Mohammed Kanoo

Chairman

CEO's Statement

On behalf of our management and staff, I am pleased to report 2009 as a solid year of development, progress and a year of nominal but positive profitability for First Leasing Bank. Given the Bank has yet to reach maturity in portfolio size, leverage and return on equity, it performed admirably in 2009. Our lease portfolio generated consistent cash flow and income to adequately sustain the Bank through the year. The Bank remained profitable (albeit nominally) in a year when many financial institutions did not. Shareholder equity increased. The Bank adjusted its strategy for limited growth and focused on portfolio performance, maintaining cash flow, high liquidity and implementing further operational and risk management improvements. In a challenging economy, FLB improved its foundation to ensure successful and safe growth when capital becomes more readily available in the future – and the Bank can resume growing its portfolio, increasing its leverage and progressing toward target return on equity for our shareholders.

It is important to reiterate the Bank invested in an infrastructure and set a strategy to grow its lease portfolio to a minimum \$500 million and a minimum debt-to-equity leverage of 3:1 to reach operational maturity and target returns. This strategy remains our long term objective. However, this strategy relies upon the Bank being able to acquire debt capital at levels greater than the present financial markets and our present circumstance will allow. The Bank continues to work toward our long term strategy, and we work toward immediately achievable objectives to improve the Bank in parallel.

The foundation and core structure of the Bank continued to improve in 2009. To safeguard our assets, the Bank updated its collection and enforcement practices to ensure constant and direct customer monitoring. Receivables stabilized in the second half of the year. The Bank implemented a global-best-practice credit scoring and risk management system, which has helped the Bank standardize both its transaction and portfolio risk management practices. Our new system also helps the Bank identify transactions for syndication, since it is an industry standard utilized by many other financial institutions. The Bank adjusted its go-to-market origination parameters to increase portfolio turnover, accelerate portfolio income and mitigate risk. The Bank worked to develop additional fee-based sources of income in 2009 to help increase and diversify future income streams. The Bank worked to develop syndication markets and a regional lease fund, which should come to fruition in 2010. In a challenging year and despite low returns, the Bank did make progress in 2009, significant progress.

The Bank's achievements reflect the hard work, commitment and dedication of our people – our staff, management and board. I am proud of our collective accomplishments and want to expressly thank each member of the extended Bank team for their efforts during 2009.



Gregory T. Brinkerhoff

Chief Executive Officer

Board of Directors

Khalid M. Kanoo Chairman

Mr. Khalid Kanoo is the Group Managing Director of Yusuf Bin Ahmed Kanoo W.L.L. He is current the Chairman of the Bahrain Family Business Association and a Board Member of the Bahrain Stock Exchange and the Bahrain Convention and Exhibition Authority. Mr. Kanoo is also a Board member of The Ibda Bank, Oasis Capital Bank, Gulf Hotels Group, Akhbar Al Khaleej Press & Publishing House, Bahrain Ship Repairing Company (BASREC) and the American Chamber of Commerce in Bahrain. Besides, he is the Chairman and Deputy Chairman of various companies in Saudi Arabia, Qatar and Yemen. He is a former chairman of Bahrain Chamber of Commerce and Industry (BCCI) and the founding Chairman of the Young Presidents' Organization – Saudi Chapter. Mr. Kanoo is the author of two books. The House of Kanoo – A Century of an Arabian Family Business and the History of the Bahrain Chamber of Commerce and Industry and the GCC Chambers of Commerce. He holds a B.Sc. in Commerce, USA; A.M.P., Harvard University, USA.



H. Russell Wilks Director

Mr. Wilks is a Member of the Executive Committee of the Bank. He is the President of Overland Capital Group, Inc., a Senior Managing Director of Overland Leasing Group LLC and a Member of the Board of Directors and the Executive and Investment Committees of Overland. Mr. Wilks was formerly a Senior Vice President of Key Equipment Finance ("KEF"), holding several positions, including Senior Vice President of Portfolio Investments and Senior Vice President of Capital Markets and Economics. In his 26 years in the leasing industry, Mr. Wilks has gained broad experience in all aspects of equipment leasing. He holds a B.Sc. in Business Management/Marketing and an MBA in Finance, Brigham Young University.



Board of Directors

Shaikh Khalid bin Mohammed Al-Khalifa Director

Shaikh Khalid is a Member of the Executive Committee of the Bank. He is the Chief Executive Officer of Palm Capital SPC since 2005 and a Member of the Board of Directors of Capital Management House, Oasis Capital Bank, as well as several real estate development companies. Previously, he was at the Bahrain Monetary Agency (now Central Bank of Bahrain) for five years in various positions including Head of the Strategic Planning Unit. During his time at the Agency he was responsible for managing key projects across several asset classes such as the Islamic Financial Education Training and Research Center and the Bahrain International Insurance Center. He was a member of several key committees dealing with, among other issues, the development of the Debt and Equity Capital Markets in the Kingdom of Bahrain, as well as promoting the Kingdom as the region's hub for business. Shaikh Khalid holds a Bachelors Degree in Economics and International Relations from Boston University, a Masters Degree in Economics from Tufts University, and an Executive MBA from University of Virginia, Darden School of Business.



Raafat Mokbel Hussein Director

Mr. Mokbel is Assistant to the Chief Executive Officer of Faisal Islamic Bank of Egypt. Mr. Mokbel is also a Member of the Resources and Application Committee as well as the Higher Management Committee. He serves as Secretary to the Board of Directors of Faisal Islamic Bank of Egypt. He holds a BA from Cairo University.



Board of Directors

Mohamed Hussain

Director and Chairman of the Executive Committee

Mr. Hussain, who was appointed Ithmaar Bank Chief Executive Officer in September 2009, has been a Member of the Ithmaar Board of Directors since June 2008. He is The Chairman of the Executive Committee of the FLB. Mr. Hussain, who has 33 years of banking experience, is responsible for overseeing the Bank's holdings in subsidiaries, associates and strategic investments, as well as the group's Treasury, Private Banking and Risk Management. Prior to his current appointment, Mr. Hussain was Chief Executive and Member of The Board of Shamil Bank (Bahrain), which is wholly-owned by Ithmaar Bank. A seasoned banker who joined Shamil Bank in 1998, Mr. Hussain previously held other senior positions at the Bank, including Deputy Chief Executive. He was also General Manager of Islamic Investment Company of the Gulf (E.C.) in Bahrain prior to its merger with Faysal Islamic Bank of Bahrain (E.C.) in 2000. His previous positions included Senior Vice President, Smith Barney Inc. Bahrain; Director, Marketing and Corporate Finance, Bahrain International Bank; and Assistant Vice President, Gulf International Bank. He currently serves on the boards of BBK (formerly known as Bank of Bahrain and Kuwait), Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), Faisal Islamic Bank of Egypt, Solidarity, Naseej and Ithraa Capital (Kingdom of Saudi Arabia). Mr. Hussain, a Bahraini National, holds a Bachelor of Arts degree in Economics and Finance.



Ahmed A. Rahim

Director and Chairman of the Audit and Risk Committee

Mr. Abdul Rahim, who is Chairman of the Audit & Risk Committee, is a veteran of Bahrain's banking industry, and is the Ithmaar Bank Chief Operating Officer and the Shamil Bank Deputy Chief Executive. Coming under his direct supervision at Ithmaar are Financial Control, IT and Operations, as well as Human Resources and Public Relations and Corporate Communications. Mr. Abdul Rahim, who is currently also the Shamil Bank Deputy Chief Executive, had previously worked for 28 years with National Bank of Bahrain at various executive levels, including as Manager FX and Funding, Chief Internal Auditor and, finally, Assistant General Manager, Corporate Services. He holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate in Financial Accounting from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from the University of Bahrain and Advance Banking Diploma from the Bahrain Institute of Banking and Finance. Mr. Abdul Rahim is a member of the Executive Committee of Shamil Bank and a member of the Board of Directors of Meezan Bank, Pakistan, Family Bank, Bahrain, Bahrain and Ithmaar Development Company. He is also a member of the InJAz Bahrain Board of Directors.



Board of Directors

Dr. Mahmoud M. Elborai

Director

Dr. Elborai is a Member of the Audit and Risk Committee of the Bank. He is a Founder and Chairman of Insiab Pumping Engineering in Libya. He is also, Chairman of Control Committee of Sahara Bank BNP PARIBAS GROUP in Libya. Dr. Elborai worked as a Chemical Engineering Professor at the University of Tripoli in Libya and had worked for eight years as Senior Consultant to MAN Oil and Gas, and for 12 years as a Project Management Consultant to Thyssen Stahl Union, Germany. Dr. Elborai holds a Ph.D. in Chemical Engineering from Karlsruhe Technical University, in Germany.



Executive Management



From left to right

Ali Al-Sharaf, Jassim Awadh, Gregory T. Brinkerhoff,
Monther Albasri, Adel Mohamad Janahi, Agnel B Pereira

Executive Management

Gregory T. Brinkerhoff

Chief Executive Officer

Mr. Brinkerhoff is responsible for all First Leasing Bank's sales, marketing, operations and financial activities. Mr. Brinkerhoff comes to First Leasing Bank from Oracle Corporation where he was part of the senior management team which developed Oracle's global vendor financing programme – a multi-billion USD franchise, operating in over 50 countries. Mr. Brinkerhoff spent 14 years with Oracle Corporation developing and managing financial sales, lease and installment payment programmes for information technology assets in North America, Asia Pacific, Japan and Europe. Mr. Brinkerhoff previously held positions at US Leasing in San Francisco, California and Ford Aerospace Corporation in Newport Beach, California. Mr. Brinkerhoff is a Board member of the American Chamber of Commerce in Bahrain and member of the U.S. Bahrain Business Council. He has an MBA in Finance from the University of Notre Dame and a BS in Business Administration and Economics from the University of Montana.

Ali Al-Sharaf

Finance Director

Mr. Al-Sharaf is responsible for the financial & treasury function of the Bank. Prior to joining First Leasing Bank, Mr. Al-Sharaf worked for Islamic Development Bank (IDB) in Jeddah, Arab Insurance Group (ARIG), Middle East Navigation Aid Service (MENAS), PricewaterhouseCoopers and the Ministry of Electricity and Water (E&W). While at IDB, he was responsible for financial reporting of the Bank. At ARIG he worked as an Audit Senior and then moved to Insurance Investments where he assisted the management in coordinating, monitoring and controlling the Group's subsidiaries. Mr. Al-Sharaf also worked as Deputy Finance and Administration Manager for MENAS. He began his career at E&W where he has qualified as a professional accountant and gained a broad experience within various sections of the Financial Affairs Directorate of E&W. Mr. Al-Sharaf is a fellow member of the Association of Chartered Certified Accountants (ACCA), UK.

Jassim Awadh

Business Development Director

Mr. Awadh is responsible for First Leasing Bank's sales, marketing and business development activities as well as all planning and implementation of both direct and vendor programme channels, structuring transactions, and expanding into new markets and equipment classes. Mr. Awadh began his career at Citibank in cash management, where he developed business to financial institutions and corporates within the GCC, Levant and Africa. He then moved to Investment Banking with Banque Indosuez (currently Calyon) where he provided investment advisory and portfolio management to financial institutions and high net worth individuals throughout the GCC. He subsequently joined the correspondent and corporate banking activities with BBK (formerly known as Bank of Bahrain and Kuwait). Immediately prior to joining First Leasing Bank, he was Vice President, Gulf International Bank (GIB) where he was responsible for the merchant and investment banking in Bahrain, Kuwait and Saudi Arabia. Mr. Awadh, who also served on Bank's Credit Committee expanded GIB's footprint and profitability in those markets. Before beginning his banking career, Mr. Awadh held engineering positions in the field of telecommunications and electronics at Bahrain Petroleum Company (Bapco) and Bahrain Telecommunications Company (Batelco). Mr. Awadh holds a BSc, with honours, in Electrical and Electronics Engineering from Newcastle upon Tyne as well as an MBA and an MSC in Electronics Engineering, both from the University of Wales in Cardiff. He also is an associate member of Institute of Electrical Engineers (IEE) in the United Kingdom.

Agnel B Pereira

Investments and Operations Director

Mr. Pereira is responsible for transaction structuring, investment reviews and approvals, documentation and client account monitoring for the lease and investment portfolio of the Bank. He is a member of the Credit Committee of the Bank which works under a delegated authority from the Executive Committee. As part of the senior management team, he also handles the portfolio management function of the Bank. He has a diverse background of over two decades in Management Consulting, Merchant Banking,

Executive Management

Equipment Leasing and other asset finance products, Audit and Risk Advisory Services, and Training. Prior to joining the Bank, he worked for KPMG Bahrain, during which, he managed a broad cross-section of clients including commercial, offshore, Islamic and investment banks, as well as other financial institutions in the GCC. Mr. Pereira brings an extensive knowledge of equipment leasing from his tenure at Indbank, Bangalore, a subsidiary of a leading bank in India, where he was responsible for structured finance deals and equipment leases for corporate and public sector entities. His clients at Indbank also included venture capital firms, foreign institutional investors, IPO underwriters, finance brokers and mutual funds. He started his career with a Management Consulting firm, A.F. Ferguson & Co, Bangalore. Mr. Pereira is a Commerce graduate from Mangalore University, India, a Chartered Accountant and a Corporate Secretary with associate memberships of The Institute of Chartered Accountants of India and The Institute of Company Secretaries of India.

Adel Mohamad Janahi

HR and Administration Senior Manager

Mr. Janahi is responsible for the Human Resources and Administration function of the Bank. He comes to the Bank after more than 20 years at Bahrain Commercial Facilities Company, most of which he spent serving as Human Resources and Administration Manager. In that role, he was given broad responsibilities, ranging from developing HR policies and recruitment to administering records and office management. A Bahraini national, Janahi holds a B.Sc. in Banking and Finance from the University of Bahrain. He holds several other related qualifications and certificates including a Strategic HR Management qualification from University of California and a certificate on Managing Personnel and Employee Relations from Cranfield University, UK. He is also a member of the Association of Human Resources Management.

Monther Albasri

Manager, Compliance and Risk Management

Monther joined First Leasing Bank in 2007 from PricewaterhouseCoopers (PwC) – Bahrain with several years of experience in Assurance and Advisory services. During his tenure with PwC, he was engaged in a wide range of clients in all sectors inside and outside Bahrain. He gained diverse experience as he was involved in audit assignments covering Islamic Banks, Conventional Banks, other financial institutions, Oil and Gas, Government organisations, Services organisations and Manufacturing sectors. He was also involved in Transaction Services engagements including due diligence, valuation projects in addition to investigations assignments. Monther was responsible for establishing the Risk Management function of First Leasing Bank; covering all aspects of credit, market, liquidity and operational risks. He was also responsible for setting up the required foundation of the Compliance function for the Bank. In addition to that Monther is the Money Laundering Reporting Officer of the Bank. All the three functions are under his management to date. He currently works closely with the CEO to improve the financial strength of the Bank. Monther graduated with a B.Sc. in Accounting from University of Bahrain and is a member of the American Institute of Certified Public Accountants (CPA).

Management Review of Operations

Business Development

Turbulent market conditions augmented by shortage of new capital slowed FLB's business development origination activities. Nonetheless, a large pipeline of potential lease opportunities and new customers have been developed and maintained. With selective go-to-market parameters and very prudent risk management requirements, only a few opportunities were selected and executed. The main criteria for selecting the new transactions were to reduce geographical and sectorial exposure of the existing lease portfolio. Accordingly, a limited number of new clients were added to the Bank's lease portfolio and lease origination volume was substantially lower in 2009 than the prior year.

In light of challenging market conditions, the department focused its efforts to manage the existing lease portfolio with close attention to our existing customers. The team spent a significant amount of time facilitating on-site customer collections and business monitoring – to ensure the timely payment of rentals and portfolio performance. The department was also actively involved in the capital raising efforts with financial initiations and high net worth individuals.

The Bank's strategy for 2010 is to continue giving priority to ensuring the lease portfolio performs, and very selectively originate new lease opportunities with both new and existing customers. The team will continue to spend more time in newer markets of the Bank (i.e. Oman and Qatar), with emphasis new geographical and industry sectors to further diversify the lease portfolio.

In an effort to further strengthen the Bank's image and improve awareness of the benefits of leasing throughout the region, the management delivered presentations at conferences and seminars, provided articles and interviews for the media, and participated in exhibitions.

Operations

The support activities of the Operations department are integrated within all aspects of the business. These cover front office (support to business development in client offer letters and deal structuring),

middle office (credit and investment assessments, asset valuations and, lease & investment portfolio management) and back office (documentation structures and client account monitoring). The department also manages the Special Purpose Mudaraba Accounts on behalf of the participants in the Bank's equipment lease portfolio.

The dual role of investments and operations in the department enables the Bank to readily structure tailored solutions for each customer's unique needs and thereby provide a more customised, advisory approach to closely map financing solutions to specific customer requirements.

During the year, the department continued its efforts to systematize lease account monitoring process through Leasewave, the Bank's lease operating system. It also implemented an internal ratings model, Moody's KMV Risk Analyst, and completed generating internal credit ratings for all of its existing corporate customers. The department also established standardized go-to-market origination parameters and implemented an updated collection and enforcement policy.

Human Resources and Administration

2009 was a very challenging year for many financial institutions globally. Many jobs were lost and the effect of the financial crisis was clearly evident in the Kingdom of Bahrain among corporations and financial institutions. After considering all options of cost reduction, First Leasing Bank decided to not make any employee redundant in 2009. Although the cost burden is high – as the Bank is presently overstaffed for its present portfolio size and revenue – the Bank management worked to keep all employees actively engaged and fully utilized, even assigning projects and tasks outside of core functional areas when necessary. Retention of key talent and maintaining training and motivation strategies is important in both good and bad economies. During the present economic downturn, the Bank managed to retain and motivate our employees, even though performance-based bonuses were eliminated to help retain all staff. We continue to require and

Management Review of Operations

encourage ongoing training, skill and career development, albeit in a cost effective manner. Most of our staff utilizes their training and education options, and their development strengthens our core asset, our people.

Looking ahead, we will continue to explore ways in which we can balance staff costs against Bank performance, ongoing viability and shareholder return objectives. We look to 2010 as another challenging year in optimizing these objectives, but we remain committed to doing so.

Corporate Governance

First Leasing Bank is committed to adopting the highest standards of corporate governance in order to ensure fairness for all stakeholders and achieve organisational efficiency. During 2007, the Bank established two Board Committees, an Executive and Investment Committee and an Audit and Risk Committee. First Leasing Bank implemented a comprehensive review of the Bank's high level policies and procedures for corporate governance, internal controls, risk management and compliance.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. It meets regularly to consider key aspects of the Bank's affairs and strategy, including the financial statements and the operations of First Leasing Bank.

The shareholders appoint the Board for a specific term of three years. There are currently seven Directors on the Board, all non-executive, with varied backgrounds and experience, who individually and collectively exercise independent and objective judgment.

The Board provides central leadership to the Bank. It has established and defined the objectives and strategies that committees with relevant members. The Board has adopted a Board Charter which, together with the Bank's Memorandum and Articles of Association, and the Charters of various Board Committees, provides the authority and practices for governance of the Bank. The Board Charter imposes the highest level of ethical conduct and ensures the reporting of results with accuracy and transparency in a timely manner, in full compliance with the bye-laws, rules and regulations that govern the Bank's business.

Executive and Investment Committee

The responsibilities of the Executive and Investment Committee are as follows:

- To exercise the powers of the Board of Directors in addressing matters that arise between scheduled meetings of the Board.

- Provide direction to the Executive Management on First Leasing Bank's corporate strategy and review of business plans prior to submission to Board of Directors for approval.
- Review and approve all high-value transactions related to investments and lease facilities, and monitor their performance on an ongoing basis.
- Review, approve and ratify all credit and market risks, and make appropriate recommendations to the Board.
- Assist the Board in ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place; and in reviewing and supervising the implementation and enforcement of the Bank's Code of Conduct.
- Assist the Board in ensuring that an effective risk management framework is in place, and that all risk controls throughout First Leasing Bank are in accordance with regulatory requirements and best practice standards for management of risks in banks.
- Assist the Board in fulfilling its oversight responsibilities with respect to setting the Bank's overall risk appetite, parameters and limits within which it conducts its activities.

Code of conduct

The Board has approved and issued a Code of Conduct for the Directors, Executive Management, and members of staff of the Bank. The Code binds signatories to the highest standards of professionalism and due diligence in discharging their duties. The Code outlines areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices.

Internal Audit

Internal Audit is conducted by the Group's Internal Audit Department, Ithmaar Bank. The Director-Group Internal Audit reports directly to the Audit and Risk Committee to provide independent and objective assurance over the governance, adequacy, sustainability and effectiveness of the Bank's internal controls, policies and risk management processes. All key operational, financial and

Corporate Governance

risk management processes are audited according to risk based methodologies.

Internal Audit examines the strategies of the Bank, the adequacy of the relevant policies and procedures and the Bank's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with Management and reports its findings, recommendations and opinions, via a structured process, to the Audit and Risk Committee. The Internal Audit recommendations are tracked for resolution via the Bank's Audit and Risk Committee.

Compliance

The Bank conducts its business in compliance with all relevant bye-laws, rules and regulations pertaining to financial institutions. These comprise Central Bank of Bahrain rules and guidelines; compliance with Commercial Companies and Labour Laws; and International Accounting Standards. First Leasing Bank has appointed Risk Management and Compliance Manager, who also acts as a Money Laundering Report Officer (MLRO). The Bank is guided on matters of compliance to the rules and principles of Islamic Sharia by an experienced and qualified Sharia Adviser.

Communications with Stakeholders

The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main channels of communications comprise an annual general meeting of shareholders, annual report, quarterly and annual financial statements, a corporate brochure and website and regular announcements in the appropriate local media.

Risk Management

Directors of the Bank have an overall responsibility for establishing the Bank's risk culture and ensuring that an effective risk management framework is in place. In line with this, the Board approves and periodically reviews the risk management policies and strategies of the Bank.

The Audit and Risk Committee (ARC) is responsible for implementing risk management policies, guidelines and limits, and for ensuring that monitoring processes are in place. The Risk Management and Compliance department, together with the Internal Audit, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board.

Risk strategy

The Audit and Risk Committee (ARC) develops the risk strategy in line with the business strategy of the Bank and submits it to ARC for its recommendation. This strategy is approved by the Board of Directors with the annual business strategy of the Bank. The descriptions of products in each of the business, the incidence of risks in each of the products, the desired risk and hence capital targets are contained in the risk strategy. The explicit formulation of risk strategy helps in the early detection of deviations from the planned course and in initiating the corresponding counter measures in a timely manner. The strategy incorporates forward-looking aspects with regard to potential risks and changes in business strategies.

The strategy also involves the establishment of the Bank's risk appetite over a specified time period by assigning the thresholds/risk appetite level for specific risks applicable to business units.

Risk policies

The Bank's risk policies identify approval authorities, reporting requirements, and the procedures for referring risk related issues to executive management, Audit and Risk Committee and the Board, as appropriate.

Credit risk

Credit risk may arise from all products and services where counterparties of the Bank may fail to meet their payment obligations in accordance with the terms and conditions of the contract.

The Board of Directors (BoD) is responsible for the oversight of the risk management processes. To ensure that the risk management framework is implemented correctly the BoD, as an integral part of the risk management function at the Bank, has established a clearly defined and measurable risk appetite and capital assessment through the approval of the annual strategic plan and risk strategies.

The Bank has a Board-approved risk management framework. This risk management framework consists of a Risk Management Policies and Procedures Manual which documents the entire risk management structure of the Bank.

The BoD takes the responsibility for approving and periodically reviewing the credit risk strategy and the significant credit risk policies of the Bank. Senior management takes responsibility for implementing the Board approved credit risk strategy and developing policies and procedures for identifying, measuring, monitoring and controlling credit risk both at the individual credit and portfolio level.

Concentration of exposures in credit portfolios is an important aspect of credit risk. The first type, name concentration, relates to imperfect diversification of idiosyncratic risk in the portfolio either because of its small size or because of large exposures to specific individual obligors. The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectoral factors.

The policy calls for adequate diversification of the credit portfolio and categorises it into private financial services and government and quasi-government sectors, respectively.

Risk Management

The Bank has put in place the exposure limits to ensure adequate diversification and avoid any sectoral concentration. These limits fall under the following sections:

- Country limits;
- Sector / Industry limits;
- Counterparty limits and;
- Maturity limits.

Market risk

Market Risk is defined as the risk of losses in the on and off-balance-sheet positions arising from movement in market prices. The risks covered here are: (1) interest or profit rate risk and equities price risk and (2) foreign exchange risk.

Equity price risk

First Leasing Bank retains non-traded equity price risk through investments in equities held in the available-for-sale category. The Risk Management department independently monitors the equity price risk of the Bank while it is the responsibility of the business units to manage the equity

Risk Management must include, but not be limited to, regular liquidity gap reporting and scenario testing.

Through the adherence to the limits on liquidity mismatches, set out by the Management Committee and approved by the Board, the Bank's liquidity risks are managed.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, which includes but is not limited to, legal risk and Sharia compliance risk.

The Board of Directors has established an organisational risk management framework by approving the risk management policies and procedures manual. The Board periodically reviews this framework and discusses all the major findings and recommendations which will be brought forward through senior management, the Risk Manager and Internal Audit.

Senior management takes responsibility for implementing operational risk management framework throughout the whole banking organisation. Senior management also takes responsibility for developing policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems.

The Bank identifies its main processes. For every process a process owner is clearly defined. The process owner manages operational risk arising from the process through monitoring, mitigation and control on a day-to-day basis.

The Risk Manager is responsible for identifying and assessing the operational risk inherent in all material products, activities, processes and systems. Before new products, activities, processes and systems are introduced, the Risk Manager has to assess their inherent risk.

Legal and regulatory risk

The Bank manages legal risk through the effective use of external legal advisers. The Risk Management and Compliance department monitors regulatory compliance and is also responsible for the Bank's anti-money laundering procedures.

The Board of Directors receives regular reports and updates on the status of risks facing the Bank.

Capital adequacy The Bank's capital adequacy ratio for the year ending December 31, 2009 was calculated in accordance with CBB Basel II guidelines

Board of Directors' Report

On behalf of the Board of Directors, I am honoured to present the Board of Directors' report together with the audited financial statements of First Leasing Bank B.S.C. (c) (FLB) for the year ended 31 December 2009. FLB's portfolio and balance sheet growth virtually stopped in 2009 due to limited availability of capital. While our financial results reflect such loss in growth and momentum, FLB's lease portfolio generated consistent cash flow and income to adequately sustain the Bank through the year. The Bank adjusted its strategy for limited growth and focused on portfolio performance, maintaining cash flow, high liquidity and implementing further operational and risk management improvements. In a challenging economy, FLB improved its foundation to ensure successful and safe growth when capital becomes more readily available in the future. First Leasing Bank remains committed to be the leading financial services company in the GCC specialising in Sharia'a Compliant equipment leasing.

Financial Performance

Despite the Bank assets and portfolio decreasing in 2009, top line revenue grew – the effect of a full year of portfolio income and cash flow, predominantly realized from our 2007-2008 lease originations. Total Income for the year grew to \$12.3 million from \$9.5 million in 2008. Income from core financing activities grew to \$9.9 million from \$7.9 million in 2008. Profit Prior to Provision has remained relatively level from 2008 to 2009, at just over \$3.0 million for each year. However, the Bank has increased its impairment provisions for 2009 by \$2.8 million to accommodate for the inherent risk of the present economy on our lease and investment portfolios. Accordingly, Profit After Provision for 2009 is \$368,000, nominally above breakeven and significantly lower than the \$3.0 million realized in 2008. Independent of impairment provisions, the Bank continues to maintain a mismatch of higher infrastructure cost levels than what is commensurate with our present portfolio size and capital composition. This was by design in both 2008 and 2009 to maintain capability to grow our portfolio upon future capital raising events. The Bank did manage to cut operating costs by seven percent in 2009 without making any staff redundant, and continues to work toward ongoing and manageable cost reductions.

2009 Total Assets declined to \$155.6 million from \$179.4 million at the end of 2008, as the Bank's existing debt amortization and repayments were greater than new debt obligations originated during the year. Shareholders' Equity in 2009 increased nominally to \$104.1 million from \$103.8 million in 2008.

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. Lease margins over Bank cost of funds increased in 2009 and continue well above business plan levels – 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 targeted levels once a debt-to-equity leverage ratio of 3:1 is achieved on our existing equity base. Sourcing capital remains the Bank's major obstacle in reaching sustainable portfolio and return on equity levels.

Corporate Performance

With limited capital to grow, FLB focused on portfolio performance, safeguarding assets and improving our operational capabilities in 2009. The Bank implemented Moody's KMV Risk Analyst (RA) in Q2 2009 to standardize its credit-scoring and risk management practices going forward. RA is Basel II compliant and allows the Bank to stay aligned with industry best practices in risk assessment and management. The Bank also continuously perfected its collection and enforcement practices throughout the year, extensively using on-site collection and customer monitoring. The Bank enforced its contract terms in lieu of restructuring, when necessary, and won a critical court judgement in Q4 2009 to recover leased assets. 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. The Bank further developed secondary markets in 2009, which will result in tangible 2010 syndication activity. We also further automated and integrated core back-office functions with our enterprise software.

2009 was a difficult year and we believe 2010 will be challenging as well. However, FLB continues to improve its foundation to

ensure steady performance from our existing portfolio and safe and successful growth in the future.

On behalf of the Board, I would like to thank our shareholders for their continued patience and support, our clients and business partners for their ongoing confidence and loyalty, as well all Bank's management and staff for their hard work and dedication. We also express our thanks to the Central Bank of Bahrain for its stewardship and all regulatory authorities for their cooperation and assistance extended to FLB.

Board of Directors

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

Mr. Khalid Mohammed Kanoo
Chairman of the Board of Directors

Mr. Mohammed Abdulrahman Hussain
Ithmaar Bank B.S.C., CEO

Mr. Ahmed Abdulrahim
Ithmaar Bank B.S.C., COO

Sh. Khalid Mohammed Al-Khalifa
Palm Capital S.P.C., CEO

Mr. H. Russell Wilks
Overland Capital Group Inc., President

Mr. Raafat Mokbal Abdelwahab
Faisal Islamic Bank of Egypt, Deputy CEO

Dr. Mahmoud El. Borai
Pumping Engineering Ltd, Chairman

The number of shares held by the Directors and their related parties as at 31 December 2008 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.

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

Financial Statements & Notes

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Independent Auditor's Report

to the Shareholders of First Leasing Bank B.S.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 the accordance with the 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 that audit 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 auditors 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.

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 the regulatory requirements

Further, in the accordance with the requirements of the Bahrain Commercial Companies law and the Central bank of Bahrain Law, we report that 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 Director's report are the 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

Statement of financial position

As at 31 December

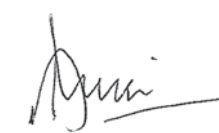
(All amounts expressed in United States Dollars unless otherwise stated)

	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

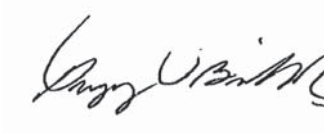
These financial statements were approved for issue by the Board of Directors on 24 February 2010 and signed on its behalf by:



Khalid Mohamed Kanoo
Chairman



Mohamed Hussain
Director



Gregory Thomas Brinkerhoff
Chief Executive Officer

The notes on pages 28 to 51 are an integral part of these financial statements.

Statement of comprehensive income

Year ended 31 December

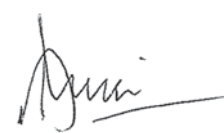
(All amounts expressed in United States Dollars unless otherwise stated)

	Note	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		(4,399,460)	(1,275,935)
		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	320,253	186,856
Total operating income		7,868,393	8,255,413
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		(65,328)	-
Total operating expenses excluding provisions		(4,735,188)	(5,112,921)
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		(588,235)	-
		(2,765,683)	(124,000)
Profit for the year after provision		367,522	3,018,492
Other comprehensive income for the year		-	-
Total comprehensive income for the year		367,522	3,018,492

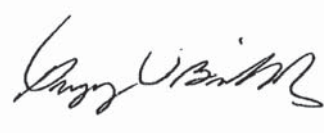
These financial statements were approved for issue by the Board of Directors on 24 February 2010 and signed on its behalf by:



Khalid Mohamed Kanoo
Chairman



Mohamed Hussain
Director



Gregory Thomas Brinkerhoff
Chief Executive Officer

The notes on pages 28 to 51 are an integral part of these financial statements.

Statement of changes in equity

As at 31 December

(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	100,000,000	751,782	3,055,267	103,807,049
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	100,000,000	788,534	3,386,037	104,174,571

The notes on pages 28 to 51 are an integral part of these financial statements.

Statement of cash flows

As at 31 December

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

	Note	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
		2,682,755	3,175,804
<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		(4,183,188)	(74,351,024)
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		113,767	(11,090,463)
Financing activities			
Proceeds from borrowed funds		17,957,500	73,890,933
Repayment of borrowed funds		(42,036,746)	(458,750)
Net cash (used in)/ generated from financing activities		(24,079,246)	73,432,183
Net decrease in cash and cash equivalents		(28,148,667)	(12,009,304)
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	6,818,445	34,967,112

The notes on pages 28 to 51 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2009

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:

- 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)

Notes

to the Financial Statements

for the year ended 31 December 2009

2.1 Basis of preparation (continued)

- 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)
- 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.

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.

Notes

to the Financial Statements

for the year ended 31 December 2009

2. Significant accounting policies (continued)

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.

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.

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

2. Significant accounting policies (continued)

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.

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

3. Financial risk management (continued)

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 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.

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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.

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3. Financial risk management (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				Total
	UAE	Bahrain	Other GCC countries	Others	
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.

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3. Financial risk management (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						
	Construction	Manufacturing	Printing	Medical	Real estate	Others	Total
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:

	31 December 2008						
	Construction	Manufacturing	Printing	Medical	Real estate	Others	Total
Assets							
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			
	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

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3. Financial risk management (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				121,966,313

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	1,230,514	15,823,962	116,606,303	133,660,779

	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	1,613,619	33,353,493	121,966,313	156,933,425

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.

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for the year ended 31 December 2009

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:	±134,143	±59,915

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:

	Interest rate sensitive					Non-interest rate sensitive	Total
	Up to 1 month	1-3 months	3-12 months	1-5 years			
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	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	51,413,302	
Total interest repricing gap	5,272,481	824,061	26,659,185	49,117,364			

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3. Financial risk management (continued)

	Interest rate sensitive				Non-interest rate sensitive	Total
	Up to 1 month	1-3 months	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		

2008

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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:

	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

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3. Financial risk management (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.

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3. Financial risk management (continued)

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

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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.

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5. Finance lease receivables

Gross investment in finance leases receivables:

	2009	2008
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
	142,662,421	145,602,739
Unearned future finance income on finance leases	(23,878,671)	(23,512,426)
Provision for impairment	(2,177,447)	(124,000)
Net investment in finance leases	116,606,303	121,966,313

The net investment in finance leases is analysed as follows:

	2009	2008
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
	116,606,303	121,966,313

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)
	116,606,303	121,966,313

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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)	-
	20,121,950	20,525,513

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	20,121,950	20,525,513

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

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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	299,949	762,150	604,751	1,666,850
<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	152,657	223,506	37,911	414,074
Net book value as of 31 December 2009	147,292	538,644	566,840	1,252,776
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	299,949	619,780	435,813	1,355,542
<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	92,697	153,001	9,079	254,777
Net book value as of 31 December 2008	207,252	466,779	426,734	1,100,765

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
	458,450	531,126
Operating lease rental income for the year	126,716	36,715

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8. Other assets

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

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
	20,918,097	28,094,558

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).

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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

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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
	29,693,577	46,162,441

	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	19,585,662
	19,497,180	35,778,762

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	-	-
	10,141,898	10,169,722

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

Notes

to the Financial Statements

for the year ended 31 December 2009

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
	801,628	1,310,390

12. Share capital

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

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
	416,365	444,863

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.

Notes

to the Financial Statements

for the year ended 31 December 2009

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
	320,253	186,856

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
	1,792,895	1,762,835

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
	17,054,476	34,967,112
Less: Placements with banks maturing within 6 months	(10,236,031)	-
	6,818,445	34,967,112

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.

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
	104,174,571	103,807,049

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

	2009		2008	
	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)		104,174,571		103,807,049
Risk to Assets ratio (B / A)		59%		61%

Basel II Pillar III Disclosures

Basel II Pillar III Disclosures

for the year ended 31 December 2009

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

1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Bank's financial statements for the year ended 31 December 2009, presented in accordance with the International Financial Reporting Standards (IFRS). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2009.

2. Basel II Framework

CBB has issued Basel II guidelines which are effective from January 2008. These guidelines have been issued for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a more risk based approach to the assessment of the risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework.

The Basel II framework is based on three pillars as follows:

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information

3. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarized as follows:

Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

Capital Structure for capital adequacy purpose:

A. Tier 1 Capital	
Issued and fully paid-up ordinary capital	100,000,000
Reserves	
Retained profit brought forward	3,055,000
Statutory reserve	752,000
Total Tier 1 capital before PCD deductions	103,807,000
B. Tier 2 Capital	
Current profit	368,000
Total Tier 2 capital before PCD deductions	368,000
C. Total Available Capital (A+B)	104,175,000
D. General Deductions from Tier 1 under PCD Module	-
E. Total Eligible Capita (C-D)	104,175,000

Basel II Pillar III Disclosures

for the year ended 31 December 2009

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

4. Disclosure of the regulatory capital requirements for credit risk under standardised approach

	Risk weighted assets	Capital requirement
Banks	3,411,000	409,000
Claims on corporates	116,606,000	13,993,000
Investment in securities	15,006,000	1,801,000
Holding of Real Estate	20,236,000	2,428,000
Other assets	1,806,000	217,000
Total	157,065,000	18,848,000

5. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Cash and balances with bank	1,230,000	1,233,000
Placements with banks	15,824,000	21,121,000
Finance lease receivables	116,606,000	126,931,000
Total credit risk exposure – on balance sheet	133,610,000	149,285,000
Lease commitments – off balance sheet	-	2,068,000
Total credit exposure	133,610,000	151,353,000

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2009.

6. Geographical distribution of credit exposures

	Asia/Pacific	Middle East	Europe	North America	Total
On-balance sheet items					
Cash and balances with banks	-	1,230,000	-	-	1,230,000
Placements with banks	-	15,824,000	-	-	15,824,000
Finance lease receivables	-	108,685,000	-	7,921,000	116,606,000
Investment securities available-for-sale	5,000,000	5,781,000	9,341,000	-	20,122,000
Property, plant and equipment	-	1,253,000	-	-	1,253,000
Other assets	-	552,000	-	-	552,000
Total on balance sheet items	5,000,000	133,325,000	9,341,000	7,921,000	155,587,000
Off balance sheet items					
Total credit exposure	5,000,000	133,325,000	9,341,000	7,921,000	155,587,000

Basel II Pillar III Disclosures

for the year ended 31 December 2009

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

7. Industry distribution of credit exposures

	Banks and financial institutions	Manufacturing	Property and construction	Technology	Others	Total
On-balance sheet items						
Cash and balances with banks	1,230,000	-	-	-	-	1,230,000
Placements with banks	15,824,000	-	-	-	-	15,824,000
Finance lease receivables	-	26,753,000	48,083,000	8,788,000	32,982,000	116,606,000
Investment securities available-for-sale	-	-	10,119,000	-	10,003,000	20,122,000
Property, plant and equipment	-	567,000	147,000	-	539,000	1,253,000
Other assets	305,000	-	43,000	-	204,000	552,000
Total on-balance sheet items	17,359,000	27,320,000	58,392,000	8,788,000	43,728,000	155,587,000
Off-balance sheet items						
	-	-	-	-	-	-
Total credit exposure	17,359,000	27,320,000	58,392,000	8,788,000	43,728,000	155,587,000

8. Maturity breakdown of credit exposures

	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 years	Total
On-balance sheet items					
Cash and balances with banks	1,230,000	-	-	-	1,230,000
Placements with banks	-	5,588,000	10,236,000	-	15,824,000
Finance lease receivables	5,691,000	7,512,000	32,160,000	71,243,000	116,606,000
Investment securities available-for-sale	-	-	-	20,122,000	20,122,000
Operating lease receivables	-	-	-	567,000	567,000
Other assets	-	-	-	1,238,000	1,238,000
Total on-balance sheet items	6,921,000	13,100,000	42,396,000	93,170,000	155,587,000
Off-balance sheet items					
	-	-	-	-	-
Total credit exposure	6,921,000	13,100,000	42,396,000	93,170,000	155,587,000

9. Related-party balances under credit exposure

Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2009 were \$29,694.

As at 31 December 2009, the Bank did not have any concentration of risk to individual counterparties where the credit exposure is in excess of the 15 percent individual obligor limit.

Basel II Pillar III Disclosures

for the year ended 31 December 2009

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

10. Past due and impaired financial assets by geographical areas and related provisions for impairment

The Bank had impaired financial assets at 31 December 2009 amounting to \$23,839,132 (31 December 2008: \$2,882,332). The Bank has made provision of \$2,177,447 (31 December 2008: \$124,000) against the impaired loans based on discounting the future cash flows.

Impaired assets are overdue by more than 6 months and are located in United Arab Emirates, Kuwait and United States of America.

Movement in impairment provisions	Specific provisions
At 1 January 2009	124,000
Net charge during the period	2,177,000
At 31 December 2009	2,301,000

11. Credit exposures which are covered by eligible financial collateral

In respect of finance lease receivable, the assets are held in the name of the Bank and their fair values are estimated by management to exceed the carry amounts.

12. Disclosure of regulatory capital requirements for market risk under the standardized approach

	Risk weighted assets	Capital charge	Maximum	Minimum
Foreign exchange risk	5,118,000	409,000	409,000	409,000

13. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15 percent under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2009 aggregated to \$938 thousands.

14. Tier 1 capital ratios and total capital ratios

	Tier 1 Capital Ratio	Total Capital Ratio
First Leasing Bank B.S.C. (c)	59.69%	59.90%