Consolidated Financial Statements

For the year ended 31 December 2011

Contents

BANK ALKHAIR

CHAIRMAN'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

We are pleased to present the Annual Report of Bank Alkhair BSC (c) for the year ended 31 December 2011, which was the Bank's seventh full year of operation. Bank Alkhair's primary focus in 2011 was to return to profit, and during the year we continued to focus on restructuring the Bank, improving our financial position and strengthening our operating capabilities.

Bank Alkhair reported a net profit of US$1.2 million for the year ended 31 December 2011, compared to a net loss of US$229.5 million for 2010. Total income for 2011 was US$26 million, compared to a loss of US$106.2 million in 2010. Operating expenses for 2011 were US$41.6 million, a 38% decrease from US$67.4 million in 2010, reflecting restructuring measures taken during the year as well as our continued focus on streamlining operations and right-sizing the Bank.

During the year, we successfully closed a number of important transactions. In partnership with Venture Capital Bank in Bahrain, Bank Alkhair successfully acquired a 65% stake in Göknur Foods Imp. Exp. Trading and Production Co. (Göknur), marking one of the largest investments in the agro-food sector in Turkey. Established in 1993, Göknur is one of the largest and fastest growing fruit juice and puree producers and the largest fruit juice concentrate exporter in Turkey, with a customer portfolio spanning close to 60 countries globally.

Furthermore, as part of our strategy to exit the US market to focus on our core markets in the GCC/MENA and Southeast Asia regions, we successfully exited a number of our US portfolio investments. This included the sale of a 75% stake in Sun Well Service, Inc. (Sun Well), the largest independent oil well service company operating in the Williston Basin in the North Central United States; and the sale of an 80% stake in Victron, Inc. (Victron), a specialty provider of high-mix, complex electronics manufacturing services located in California. The exits of our investments in Sun Well and Victron generated net gains of US$2.7 and US$11.2 million respectively.

We also significantly strengthened our subsidiaries in Saudi Arabia, Malaysia and Turkey. Alkhair Capital Saudi Arabia continued to invest in its resources and infrastructure. The company's Asset Management division received Capital Market Authority approval to launch three new funds in 2012, and the Brokerage division has commenced its e-trading services. Our subsidiary in Malaysia, Alkhair International Islamic Bank Berhad, continued to close important transactions in its three main lines of business: Corporate Banking, Investment Banking and Treasury. Alkhair Capital Turkey underwent significant restructuring during the year in order to improve operational efficiencies and facilitate its mission of sourcing and creating investment opportunities for Middle Eastern capital seeking access to Turkey, which is one of the fastest growing economies in the world.

Also during the year, Bank Alkhair took concrete measures to enhance its corporate governance and risk management functions. In recognition of the Board's ultimate responsibility for risk management oversight, the Board established a board level Risk Committee to assist it in strengthening the Bank's risk governance mechanisms and support a more independent risk function, in addition to improving the Board's risk reporting and oversight functions. The Bank also continued to bolster its risk management infrastructure, including the review and implementation of additional risk policies.

Bank Alkhair also took active steps to ensure that it is in full compliance with the Central Bank of Bahrain's new corporate governance requirements and that it continues to adhere to the highest standards of ethical conduct and transparency throughout its business. Measures taken include a thorough review and enhancement of the Bank's corporate governance policies and procedures as well as the development of new policies in accordance with international best practice.

Furthermore, Bank Alkhair underwent an extensive rebranding exercise during the year. This saw us launch our new name and brand, which are a reflection of the Bank's re-aligned operating philosophy and strategy. Bank Alkhair has worked hard over the past two years to safeguard its financial position, and the Board of Directors and major shareholders have continued to actively support the Bank, with the objective of building trust in our institution, in the Board and in our employees. It is our firm conviction that growth will only come when there is trust, and that trust in turn will lead to prosperity or 'alkhair' – and hence our name: Bank Alkhair. Our new logo and brand elements are clean and streamlined, in keeping with both our refocused approach and our streamlined operations.

We would like to take this opportunity to welcome Mr. Adel Al-Saqabi who joined the Board of Directors of Bank Alkhair in 2011. Mr. Al-Saqabi has over 20 years of experience in the financial services sector and serves on the Board of several prominent Kuwaiti companies. We would also like to thank Mr. Waleed Al-Sharhan who resigned from the Board in 2011 for his valuable contribution to the Board and the Bank.

In closing, we would like to express our gratitude, as always, to all of our stakeholders for their continuous trust and confidence in the Bank. We are also tremendously grateful to the Central Bank of Bahrain for its continued guidance and support. We are confident that the prudent measures taken during the year leave Bank Alkhair well-positioned to capitalise on growth opportunities and to continue to achieve profitability in 2012.

Yousef A. Al-Shelash
Chairman of the Board

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (C)
(formerly Unicorn Investment Bank BSC (c)), Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank Alkhair BSC (c) (formerly Unicorn Investment Bank BSC (c)) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and of the results of its operations, its cash flows, changes in equity and changes in restricted investment accounts for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that: the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book Volume 2, applicable provisions of Volume 6 and CBB directives, the CBB Capital Markets Regulations and associated resolutions or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

kpmg

18 March 2012
Manama, Kingdom of Bahrain

SHAR'IAH SUPERVISORY BOARD REPORT

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (C)
(formerly Unicorn Investment Bank BSC (c)), Manama, Kingdom of Bahrain

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts relating to the transactions conducted by Bank Alkhair BSC (c) (formerly Unicorn Investment Bank BSC (c)) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2011. We have conducted our review with a view to form an opinion as to whether the Group has complied with the rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2011 are in compliance with the rules and principles of Islamic Shari'ah, except the investment in Taj Mall project which the Shari'ah Board advised in a previous resolution to exit as soon as possible.

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.

c) The Shari'ah Board advised the Bank's management that all earnings that have been realised from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Dr. Khalid Mathkoor Al-Mathkoor

Dr. Aagil Jasim Al-Nashmy

Dr. Abdul Sattar Abu Ghuddah

Dr. Ali Muhyealdin Al-Quradaghi

Sh. Nizam Mohammed Yaqouby

Dr. Mohammed Daud Baker

7 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Note	31 December 2011	31 December 2010 (restated)
ASSETS			
Cash and balances with banks	4	**11,081**	43,943
Placements with financial institutions		**66,477**	72,437
Financing receivables	5	**95,838**	229,413
Investment securities	6	**130,383**	123,002
Investments in associates	7	**114,952**	104,745
Investment property	8	**17,706**	17,706
Other assets	9	**38,552**	8,632
Equipment		**5,483**	7,147
Assets held-for-sale	10	**2,560**	120,923
TOTAL ASSETS		**483,032**	727,948
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial and non-financial institutions	11	**231,661**	393,980
Subordinated murabaha	12	**-**	51,249
Other liabilities	13	**16,205**	27,696
Liabilities relating to assets held-for-sale	10	**-**	52,617
TOTAL LIABILITIES		**247,866**	525,542
EQUITY			
Share capital	14	**207,862**	215,578
Share premium		**-**	141,708
Statutory reserve		**337**	15,580
Fair value reserve		**(227)**	(262)
Foreign currency translation reserve		**(8,642)**	(6,112)
Retained earnings/(accumulated losses)		**4,153**	(213,964)
Total equity attributable to the shareholders of the parent (page 7)		**203,483**	152,528
Non-controlling interests		**31,683**	34,605
Non-controlling interests relating to assets held-for-sale	10	**-**	15,273
TOTAL EQUITY		**235,166**	202,406
TOTAL LIABILITIES AND EQUITY		**483,032**	727,948

The consolidated financial statements consisting of pages 4 to 43 were approved by the Board of Directors on 18 March 2012 and signed on its behalf by:

Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Note	31 December 2011	31 December 2010
Finance income		**9,687**	13,732
Finance expense		**(9,218)**	(19,227)
Net finance income / (expense)		**469**	(5,495)
Investment banking income / (loss)	15	**16,066**	(112,610)
Share of profit of associates	7	**6,444**	6,788
Other income		**3,105**	5,056
Total income / (loss)		**26,084**	(106,261)
Staff cost		**25,319**	41,173
Legal and professional expenses		**2,154**	10,192
Premises cost		**3,506**	3,216
Business development expenses		**1,478**	4,297
Depreciation		**2,157**	2,480
Other operating expenses		**7,008**	6,073
Total expenses		**41,622**	67,431
Loss for the period from continuing operations before taxation and impairment		**(15,538)**	(173,692)
Provision for taxation	16	**(1,800)**	(1,868)
Reversal of impairment and provisions / (charge for the year)	17	**4,010**	(53,936)
Gain on sale and profit for the year from assets held-for-sale and discontinued operations	10	**14,497**	-
Profit / (loss) for the period		**1,169**	(229,496)
Attributable to:			
Shareholders of the parent		**3,371**	(226,811)
Non-controlling interests		**(2,837)**	(2,685)
Non-controlling interests relating to assets held-for-sale		**635**	-
		1,169	(229,496)

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Attributable to the shareholders of the parent									
2011	**Share capital**	**Share premium**	**Statutory reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Retained earnings / (accumulated losses)**	**Total**	**Non-controlling interests**	**Non-controlling interests relating to assets held-for-sale**	**Total equity**
As at 1 January 2011	215,578	141,708	15,580	189	(6,112)	(215,004)	151,939	34,605	15,273	201,817
Impact of change in accounting policy (refer note 3b)	-	-	-	(451)	-	1,040	589	-	-	589
Restated balance at 1 January 2011	**215,578**	**141,708**	**15,580**	**(262)**	**(6,112)**	**(213,964)**	**152,528**	**34,605**	**15,273**	**202,406**
Profit / (loss) for the period	-	-	-	-	-	3,371	3,371	(2,837)	635	1,169
Foreign currency translation differences	-	-	-	-	(2,577)	-	(2,577)	(85)	-	(2,662)
Fair value changes	-	-	-	235	-	-	235	-	-	235
Transfer from fair value on sale	-	-	-	(79)	-	79	-	-	-	-
Share of changes in reserves of associates	-	-	-	(121)	47	-	(74)	-	-	(74)
Total recognised income and expense for the year	**-**	**-**	**-**	**35**	**(2,530)**	**3,450**	**955**	**(2,922)**	**635**	**(1,332)**
Transfer to statutory reserve	-	-	337	-	-	(337)	-	-	-	-
Conversion of subordinated murabaha (note 12)	50,000	-	-	-	-	-	50,000	-	-	50,000
Capital reduction (note 14)	(57,716)	(141,708)	(15,580)	-	-	215,004	-	-	-	-
Disposal of a subsidiaries (note 10)	-	-	-	-	-	-	-	-	(15,908)	(15,908)
As at 31 December 2011	**207,862**	**-**	**337**	**(227)**	**(8,642)**	**4,153**	**203,483**	**31,683**	**-**	**235,166**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Attributable to the shareholders of the parent									
2010	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Non-controlling interests relating to assets held-for-sale	Total equity
As at 1 January 2010	215,578	141,708	15,580	10,280	(6,761)	3,324	379,709	37,321	6,622	423,652
Impact of change in accounting policy (refer note 3b)	-	-	-	(10,400)	-	10,400	-	-	-	-
Restated balance at 1 January 2010	215,578	141,708	15,580	(120)	(6,761)	13,724	379,709	37,321	6,622	423,652
Loss for the period	-	-	-	-	-	(226,811)	(226,811)	(2,685)	-	(229,496)
Foreign currency translation differences	-	-	-	-	649	-	649	(31)	-	618
Fair value changes	-	-	-	(1,019)	-	-	(1,019)	-	-	(1,019)
Share of changes in reserves of associates	-	-	-	877	-	(877)	-	-	-	-
Total recognised income and expense for the year	-	-	-	(142)	649	(227,688)	(227,181)	(2,716)	-	(229,897)
Net movement in non-controlling interest held-for-sale	-	-	-	-	-	-	-	-	8,651	8,651
As at 31 December 2010	215,578	141,708	15,580	(262)	(6,112)	(213,964)	152,528	34,605	15,273	202,406

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	31 December 2011	31 December 2010
OPERATING ACTIVITES		
Profit/(loss) for the year	**1,169**	(229,496)
Adjustments for:		
Provision for taxation (zakat)	**1,800**	1,868
Gain on sale of investment securities	**(6,739)**	(4,874)
(Reversals) / impairment charge	**(4,010)**	53,936
Fair value loss on investment properties	**-**	11,458
Fair value changes in investment securities	**(591)**	118,597
Share of profit of associates	**(6,444)**	(6,788)
Profit from assets held-for-sale	**(14,497)**	-
Provision release	**(2,481)**	-
Depreciation and amortisation	**2,157**	2,480
Profit accrued on the subordinated murabaha	**-**	1,249
	(29,636)	(51,570)
Changes in:		
Financing receivables	**135,086**	(232,691)
Other assets	**(23,427)**	101,841
Due to financial and non-financial institutions	**(34,046)**	(127,443)
Other liabilities	**(6,718)**	(8,920)
Proceeds from sale of investment securities	**31,329**	53,685
Purchase of investment securities	**(34,619)**	(38,907)
Net cash generated from (used in) operating activities	**37,969**	(304,005)
INVESTING ACTIVITIES		
Purchase of equipment	**(66)**	(299)
Investments in associate	**(7,394)**	-
Purchase of assets held-for-sale	**-**	(20,144)
Disposal of assets held-for-sale	**60,417**	7,049
Net cash generated from (used in) investing activities	**52,957**	(13,394)
FINANCING ACTIVITIES		
Repayment of syndicated borrowing	**(128,273)**	-
Net cash used in financing activities	**(128,273)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(37,347)**	(317,399)
Effect of exchange rate changes on cash and cash equivalents	**(1,475)**	(76)
Cash and cash equivalents at the beginning of the year	**116,380**	433,855
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**77,558**	116,380
Cash and cash equivalents comprise:		
Cash and balances with banks	**11,081**	43,943
Placements with financial institutions	**66,477**	72,437
	77,558	116,380

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

2011	As at 1 January 2011	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2011
Wakala contract	-	23,602	758	(215)	(20,541)	3,604

2010	As at 1 January 2010	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2010
Wakala contract	240,132	78,929	4,931	(956)	(323,036)	-

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Bank Alkhair B.S.C. (c) (formerly Unicorn Investment Bank B.S.C.(c)) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 6h floor of Building No. 2304, Road No. 2830, Seef District 428, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory; and
- developing and managing liquidity products and other treasury products and services.

During the year, the Bank changed its name from Unicorn Investment Bank BSC (c) to Bank Alkhair BSC (c). The subsidiaries of the Bank in Saudi Arabia, Turkey and Malaysia have been rebranded as Alkhair Capital Saudi Arabia, Alkhair Capital Turkey and Alkhair International Islamic Bank Malaysia Berhad.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation	Principal activity
UIB Capital Inc.	100%	2004	USA	The main activity of UIB Capital Inc. was to monitor the performance of the acquired companies on behalf of the Bank and investors. The operations of UIB Inc. were closed in 2010 to focus on the Middle East and Levant regions.
Alkhair International Islamic Bank Malaysia Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license in 2007 by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy, asset management, underwriting and brokerage services.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia was granted a certificate of incorporation by the Saudi Arabia Capital Markets Authority in March 2009. Its principal activities are Asset Management, Corporate Finance & Investment Banking and Brokerage.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value and investment properties carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), this being the functional currency of the Group's operations.

Going concern

The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for foreseeable future. During the year, the paid up capital has been increased by US$ 50 million following the conversion of the subordinated murabaha (refer note 12). The management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, and accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 23.

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

(ii) Associates

Associates are those enterprises in which the Group holds, directly or indirectly, more than 20% of the voting power and exercises significant influence, but not control, over the financial and operating policies.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer to note 3 (d)).

If the equity accounting method is chosen for an associate, investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

2. BASIS OF PREPARATION (continued)

(ii) Associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment.

(iii) Transactions eliminated on consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/ new AAOIFI standards, Statement of Financial Accounting No.1 Conceptual framework for the financial reporting by Islamic financial institutions' (SFA 1) and FAS 25 'Investment in sukuk, shares and similar instruments' that are effective for annual reporting periods beginning 1 January 2011.

a) SFA 1: Conceptual framework for the financial reporting by Islamic financial institutions

The revised conceptual framework for Financial Reporting by Islamic financial Institutions was issued on 22 July 2010 and is effective from 1 January 2011 on a prospective basis and supersedes the previous SFA 1 and SFA 2.

The conceptual framework has been amended to primarily reflect the following:

- Widening the scope of the framework to a broader spectrum of entities rather than limiting it to only Islamic financial institutions;
- Clarify elements of financial statements and definitions of investment accounts;
- Provide overall criteria and framework for determination of on and off balance sheet accounts; and
- Changes in terminology and editorial amendments to provide more consistency in understanding of key concepts.

The amended framework introduces and emphasises the generally accepted concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as legal form. The adoption of the revised conceptual framework has not resulted in any material changes to the accounting policies and the consolidated financial statements of the Group.

b) FAS 25 'Investment in sukuk, shares and similar instruments'

FAS 25 was issued in July 2010 and replaced FAS 17 'Investments'. FAS 25 retains and simplifies the mixed measurement model and establishes two measurement categories for investments: amortised cost and fair value. The guidance in FAS 17 on 'investment in real estate' continues to apply. The new standard requires retroactive application.

The Group has adopted the revised FAS 25 on its required application date 1 January 2011. The retroactive adoption of this standard did not result in any material impact on the consolidated income statement and equity of the previous period.

On the date of application, the classification and categorization of investments has been reassessed based on the facts and circumstances on that date. The adoption of the standard resulted in the following re-categorisation of investment securities in the consolidated statement of financial position:

1 January 2010		Revised categorisation and new carrying value under FAS 25			
Previous categorisation	Original carrying value under FAS 17	Amortised costs	Fair value through equity	Fair value through income statement	Total
Fair value through income statement	198,109	-	-	198,109	198,109
Available-for-sale	49,890	15,661	34,229	-	49,890
	247,999	**15,661**	**34,229**	**198,109**	**247,999**

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) FAS 25 Investment in sukuk, shares and similar instruments (continued)

31 December 2010		Revised categorisation and new carrying value under FAS 25			
Previous categorisation	Original carrying value under FAS 17	Amortised costs	Fair value through equity	Fair value through income statement	Total
Fair value through income statement	96,128	-	-	96,128	96,128
Available-for-sale	26,285	14,074	12,800	-	26,874
	122,413	**14,074**	**12,800**	**96,128**	**123,002**

The retroactive adoption of the standard resulted in the following impact on the consolidated financial statements:

i. As a result of reclassifying debt-type investments designated as available-for-sale to investments carried at amortised cost, the fair value reserve and the fair value changes on such investments has been reversed for all periods presented.

ii. As per the Bank's previous accounting policy for investments designated at fair value through income statement, all unrealised fair value changes on such investments were transferred from retained earnings to the fair value reserve until disposal of the investment. On adoption of FAS 25, the unrealised fair value changes forming part of the fair value reserve attributable to investments designated at fair value through the income statement has been transferred from the fair value reserve to retained earnings for all periods presented.

c) Foreign currency transactions

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

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

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, associates and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rates.

d) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity accounted associates (note 2 (c)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment securities (continued)

Debt-type instruments:

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition to FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

Investments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments:

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and certain associate companies. (refer note 2 (c) (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at fair value through income statement are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment securities (continued)

(iii) Measurement (continued)

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

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

e) Financing receivables

Financing receivables comprise shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost.

f) Placements with financial institutions

These mainly comprise inter-bank placements made and received using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

g) Due to financial and non-financial institutions

This represents funds payable to financial and non-financial institutions on the principles of Murabaha and wakala. The amounts are stated at their amortised cost.

h) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Impairment of assets (continued)

Investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Other non-financial assets

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

i) Investment property

Investment property is investments that earn rental income and/or are expected to benefit from capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

j) Equipment

Equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

k) Assets held-for-sale

i) Classification

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

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell. Once classified as held-for-sale, any equity accounted investee is no longer equity accounted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Assets held-for-sale (continued)

ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' are carried at fair value.

l) Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

m) Recognition of income and expense

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following bases:

Income from investment banking services represent: advisory and placement fees, arrangement and underwriting fees, performance fees, structuring fees, dividend income, fair value gain/(loss) on investment securities, fair value gain/(loss) on investment properties, gain on sale of investment securities, and management fees. Income from services is recognised at the fair value of consideration received / receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction. (refer note 3 (d) for fair value gain / (loss) on investment securities)

Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

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

Finance income and expense is recognised on a time apportioned basis over the period of the contract based on effective profit rate.

n) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as an expense in income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

o) Earnings prohibited by Shari'ah

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Zakah (continued)

In accordance with its Articles of Association, the Bank is not required to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable amount.

q) Provision for taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. Provision for taxation (zakat), computed in accordance with Saudi Arabia Tax and Zakat regulations, is accrued and charged to consolidated income statement.

r) Offsetting of financial instruments

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

s) Statutory reserve

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

t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

u) Segment reporting

A segment is a distinguishable component which engages its business activities or group of related activities, from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components), whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Group's segmental reporting is based on the following operating segments: Capital Markets and Treasury, Private Equity, Corporate Finance, Asset Management, Strategic Mergers and Acquisitions and other. Additional disclosures about each of these segments are shown in note 28.

v) Contingent liabilities and contingent assets

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

w) Financial guarantees

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

x) Leases

Payments under operating lease are recognised the income statement on a straight line basis over the term of the lease. Lease incentives are recognised as integral part of the total lease expense, over the term of the lease.

y) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

aa) Critical accounting estimates and judgements

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

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification [note 2 (d)].

(ii) Special purpose entities

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

Estimations

(i) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

– For investment that is actively traded in an active and liquid market, fair value is determined by reference to the quoted market price prevailing on the reporting date;
– For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
– Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 18.

(ii) Impairment of financing receivables

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Critical accounting estimates and judgements (continued)

Estimations (continued)

(iii) Investment property

The Group conducts valuation of its investment property periodically using external independent valuers. The fair value is determined based on the market value of the property through the comparable method, analysing the land rates in the vicinity for similar assumed zoning regulations. The Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of cash generating units

Cash generating includes the Group's investments in certain subsidiaries and investment in equity accounted associates that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 2 (h). For investment in associates with indicators of impairment, the recoverable amounts of have been determined based on higher of fair value less costs to sell or value in use calculations.

Value in use for the investment in associate was determined by discounting the future cash flows expected to be generated from the continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell of certain cash generating units is based on indicative offer prices received by the Group..

4. CASH AND BALANCES WITH BANKS

	31 December 2011	31 December 2010
Cash on hand	**20**	15
Balances with banks	**11,061**	43,928
	11,081	43,943

5. FINANCING RECEIVABLES

	31 December 2011	31 December 2010
Gross financing receivables		
- Murabaha	**95,838**	147,004
- Wakala	**-**	89,023
Less: Provision for impairment	**-**	(6,614)
	95,838	229,413

Financing receivables comprise due from customers under murabaha / wakala financing contracts. The profit on these balances as of 31 December 2011 was equivalent to an average rate of 6.6% per annum (2010: 8.6% per annum).

Murabaha financing receivables are net of deferred profits of US$1.9 million (2010: US$3.0 million).

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

6. INVESTMENT SECURITIES

	31 December 2011	31 December 2010 (restated)
Equity type instruments:		
Fair value through income statement:		
- Quoted equity securities	**38,896**	28,067
- Unquoted equity securities	**32,994**	34,599
- Unquoted funds	**27,150**	27,394
- Quoted funds	**1,495**	6,068
	100,535	96,128
Fair value through equity:		
- Quoted equity securities	**-**	10,196
- Unquoted equity securities	**6,452**	2,604
	106,987	108,928
Debt type instruments:		
Amortised cost:		
- Sukuk	**23,396**	14,074
	130,383	123,002

*Unquoted equity securities and unquoted funds carried at fair value through income statement primarily comprise assets managed by the Group. These investments are carried at fair value determined based on valuation techniques.

During the year, the Group recognised a net fair value gain of US$0.6 miilion (31 December 2010: fair value loss of US$118.6 million) on these investments.

Investments carried at fair value through income statement include:

	At 1 January 2011	Additions during the year	Disposals during the year	Fair value changes	At 31 December 2011
Investment in associates	83,787	17,393	(4,769)	790	**97,201**
Quoted funds	6,072	-	(4,316)	(261)	**1,495**
Equity investments (< than 20% stake)	6,269	-	(4,492)	62	**1,839**
	96,128	17,393	(13,577)	591	**100,535**

**Unquoted equity securities at fair value through equity comprise investment in private equity managed by external investment managers. These include investment in an entity of US$1.5 million (2010: US$1.4 million) which is carried at cost less impairment allowances in the absence of a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs, sale of underlying assets or through initial public offerings.

During the year, the Group recognised an impairment allowance of US$2.8 million (31 December 2010 US$11.8 million) on its investments carried at FVTE.

7. INVESTMENTS IN ASSOCIATES

	31 December 2011	31 December 2010
Burj Bank Limited (formerly Dawood Islamic Bank Limited)	**21,335**	19,006
t'azur B.S.C. (c)	**9,515**	10,029
BFC Group Holdings Ltd.	**105,202**	96,810
	136,052	125,845
Less: Impairment on associates	**(21,100)**	(21,100)
	114,952	104,745

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

7. INVESTMENTS IN ASSOCIATES (continued)

The movement in investment in associates is given below:

	2011	2010
At 1 January	**104,745**	151,348
Acquisitions during the year	**7,393**	-
Share of profits / (losses) of associates	**6,444**	6,788
Share of reserves of associates	**(1,070)**	772
Transferred to assets held-for-sale (note 10)	**(2,560)**	(33,063)
Impairment allowances	**-**	(21,100)
At 31 December	**114,952**	104,745

The Bank has 36.9% stake (2010: 37.74%) in Burj Bank Limited (formerly Dawood Islamic Bank Limited), an unlisted Islamic commercial bank in Pakistan. During the year, the Bank participated in the right issue to the extent of US$7.3million. The rights issue resulted in a dilution of the Bank's stake in BBL from 37.74% to 36.90%. The Bank has an active plan to sell 3.9% of its stake in the associate and accordingly, this has been classified as assets held-for-sale (refer to note 10).

As per the requirements of the State Bank of Pakistan (SBP), the minimum paid-up capital (net off accumulated losses) of Burj Bank Limited should be increased to PKR 10 billion, (approximately US$112 million) in a phased manner by 2012. As at 31 December 2011, the paid-up capital (net off accumulated losses) of Burj Bank Limited stood at PKR 5.8 billion, (approximately US$65 million). SBP has granted limited extension till 31 March 2012 for meeting the minimum capital requirements.

The Bank has a 25.86% stake (2010: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. The associate has a commitment to provide a qard hassan loan to the extent of the accumulated deficit of US$9.7 million at 31 December 2011. The Group's share of the commitment is US$2.5 million.

The Bank has 44.88% stake (2010: 44.88%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC was incorporated to acquire Bahrain Financing Company B.S.C. (c) in Bahrain, Bahrain Exchange Company W.L.L. in Kuwait and EZ Remit in the United Kingdom.

During the year, the Group recognised US$ Nil impairment on the investment in associates (2010: US$21.1 million).

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

	2011	2010
Assets	**614,865**	200,792
Liabilities	**(310,865)**	(82,409)
Revenue	**63,485**	85,546
Profit for the year	**12,600**	6,788

8. INVESTMENT PROPERTIES

Investment properties comprise a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2011 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms. Based on the valuation, no fair value gain or loss recognised during the year (2010: fair value loss of US$11.5 million).

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

9. OTHER ASSETS

	31 December 2011	31 December 2010
Deal related advances	**14,163**	770
Dividend receivable	**-**	2,037
Fees and expenses recoverable	**6,293**	5,397
Prepayments and advances	**1,662**	2,194
Receivable from sale of investment securities	**19,904**	-
Others	**5,298**	3,909
	47,320	14,307
Less: Provision for impairment		
Fee and expenses recoverable	**(5,000)**	(2,331)
Others	**(3,768)**	(1,307)
Dividend receivable	**-**	(2,037)
	38,552	8,632

10. ASSETS AND LIABILITIES HELD-FOR-SALE

Assets held-for-sale represents investment in an associate of US$2.5 million for which the Bank has active plans to sell in the foreseeable future (refer to note 7).

During the year, the Bank sold its investments in subsidiaries, Sun Well Services Inc and Victron Inc, which were classified as held-for-sale at 31 December 2010 resulting in a gain of US$2.7 million and US$8.1 million, respectively. In addition, the profit for the period from these investments was US$3.7 million (2010: Nil)

11. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	31 December 2011	31 December 2010
Due to financial institutions	**143,178**	307,785
Due to non-financial institutions	**88,483**	86,195
	231,661	393,980

At 31 December 2010, due to financial institutions included US$127 million of syndicated financing facility that was repaid on 27 January 2011. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points. The balance pertains to interbank placements in the normal course of business. Due to non-financial other institutions primarily comprise short-term (less than 1 year) deposits from corporate customers of the Group.

The profit on the remaining due to financial institutions was equivalent to an average of 3.99% per annum (2010: 3.87% per annum).

The profit on due to non-financial institutions was equivalent to an average of 3.12% per annum (2010: 2.87% per annum).

12. SUBORDINATED MURABAHA

The Subordinated murabaha represents a US$50 million facility obtained from a related party in 2009 which was convertible at the discretion of the holder into ordinary shares of the Bank, by December 2015, at mutually agreed price and subject to meeting the legal and regulatory requirements. During the year, the related party exercised his option to convert into ordinary shares of US$1 each (refer note 14).

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

13. OTHER LIABILITIES

	31 December 2011	31 December 2010
Accruals and other provisions	**1,120**	4,852
Restructuring provision	**1,710**	5,036
Deal-related payables	**4,919**	8,331
Staff-related payables	**3,105**	4,562
Trade and other payables	**5,351**	4,915
	16,205	27,696

14. SHARE CAPITAL

	31 December 2011	31 December 2010
186,070,234 (2010: 185,819,019) ordinary shares of US$1 each, issued against cash	**186,070**	185,819
20,371,807 (2010: 27,819,966) ordinary shares of US$1 each, issued in kind	**20,372**	27,820
1,419,873 (2010: 1,938,994) ordinary shares of US$1 each, granted to employees	**1,420**	1,939
At 31 December 2011	**207,862**	**215,578**

	No. of shares (thousands)	Nominal value
At 1 January 2011	215,578	215,578
Shares issued on conversion of subordinated murabaha	50,000	50,000
Capital reduction during the year	(57,716)	(57,716)
At 31 December 2011	**207,862**	**207,862**

During the year, and after obtaining the necessary regulatory and shareholder approvals, the Bank made the following changes to its capital structure:

- adjustment of accumulated losses of US$215 million to the extent of available balance in share premium and statutory reserve and the balance of US$57.72 million against the paid up share capital of the Bank; and
- converted the US$ 50 million subordinated murabaha into equity shares of US$1 each, (refer note 12).

15. INVESTMENT BANKING INCOME

	2011	2010
Advisory fees	**3,988**	3,801
Arrangement fees	**1,944**	4,344
Dividend income	**21**	1,149
Fair value gain/(loss) on investment securities	**591**	(118,597)
Fair value loss on investment property	**-**	(11,458)
Gain on sale of investment securities	**6,739**	4,874
Management fees	**2,783**	3,277
	16,066	(112,610)

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

16. PROVISION FOR TAXATION

Provision for taxation represents the tax from operations of Alkhair Capital Saudi Arabia, calculated in accordance with the Income Tax Regulations of the Kingdom of Saudi Arabia.

17. REVERSAL OF IMPAIRMENT AND OTHER PROVISIONS / (CHARGE)

	2011	2010
Impairment		
Investments carried at fair value through equity	**(2,837)**	(9,267)
Investments carried at amortised cost	**-**	(2,555)
Investment in associates	**-**	(21,100)
Goodwill	**-**	(1,964)
Financing receivables	**311**	(6,614)
Provisions		
Others	**6,536**	(12,436)
	4,010	(53,936)

Others represent reversal of provisions and other accruals written back.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments

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

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

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

The fair values of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

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

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Movements in level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

31 December 2011	Level 1	Level 2	Level 3	Total
Investment securities				
Investment securities carried at fair value through income statement	39,119	28,645	32,771	100,535
Investment securities carried at fair value through equity	-	5,000	-	5,000
	39,119	**33,645**	**32,771**	**105,535**

31 December 2010	Level 1	Level 2	Level 3	Total
Investment securities				
Investment securities carried at fair value through income statement	28,340	33,462	34,326	96,128
Investment securities carried at fair value through equity	10,196	1,212	-	11,408
	38,536	34,674	34,326	107,536

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2011	Total gains recorded in income statement	Total gains recorded in equity	Purchases	Sales / transfers	At 31 December 2011
Investments carried at fair value through:						
- income statement	34,326	2,702	-	300	(4,557)	32,771
- equity	-	-	-	-	-	-
	34,326	**2,702**	**-**	**300**	**(4,557)**	**32,771**

	At 1 January 2011	Total gains / (losses) recorded in income statement	Total gains recorded in equity	Purchases	Sales / transfers	At 31 December 2010
Investments carried at fair value through:						
- income statement	105,960	(66,759)	-	5,000	(9,375)	34,826
- equity	-	-	-	-	-	-
	105,960	(66,579)	-	5,000	(9,375)	34,826

Gains or losses on level 3 financial instruments included in the consolidated income statement comprise:

31 December 2011	Realised losses	Unrealised gains	Total
Total gain included in income statement for the year	**-**	**2,702**	**2,702**

31 December 2010	Realised losses	Unrealised gains	Total
Total losses included in income statement for the year	(560)	(67,319)	(66,759)

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2011. In 2010, the Bank's management reassessed the basis for determining fair value for a real estate based investment and as a result, an investment carried at US$27.9 million was transferred from level 2 to level 1.

The following table shows the impact on fair value of level 3 financial instruments of using reasonably possible alternative assumptions by class of instrument:

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2011		
Investment securities		
Investment securities carried at fair value through income statement	**32,771**	**1,639**
31 December 2010		
Investment securities		
Investment securities carried at fair value through income statement	34,326	1,716

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2011		
Investment securities carried at fair value through equity	**5,000**	**323**
31 December 2010		
Investment securities carried at fair value through equity	-	-

19. ASSETS UNDER MANAGEMENT

	31 December 2011	31 December 2010
Proprietary	**61,416**	67,126
Clients	**164,390**	203,460
	225,806	270,586

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

20. COMMITMENTS AND CONTINGENCIES

	31 December 2011	31 December 2010
Commitments to invest	-	1,137
Lease commitments	**4,698**	6,594
Guarantees	**3,292**	3,357
	7,990	11,088

21. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2011	2010
Short term employee benefits	**4,709**	7,110
Post-employment benefits	**264**	595
	4,973	**7,705**

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	2011				2010 (restated)			
	Associates	Significant shareholders/ entities in which Directors are interested	Senior management	Other entities	Associates	Significant shareholders/ entities in which Directors are interested	Senior management	Other entities
Assets								
Financing receivables	**6,548**	-	-	**6,006**	6,543	-	-	6,005
Investment securities	**97,201**	-	-	**9,557**	83,787	-	-	32,276
Investment in associates	**114,952**	-	-	-	104,745	-	-	-
Other assets	**1,290**	-	**706**	**819**	2,252	-	277	1,732
Assets held-for-sale	**2,560**	-	-	-	-	-	-	120,923
Liabilities					-			
Due to financial and non-financial institutions	**31,321**	-	-	**2,615**	40,048	-	-	7,018
Subordinated Murabaha	-	-	-	-	-	-	-	51,249
Other liabilities	-	**825**	**792**	**66**	3,360	1,566	2,390	332

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

21. RELATED PARTY TRANSACTIONS (continued)

	2011				2010			
	Associates	**Significant shareholders/ entities in which Directors are interested**	**Senior management**	**Other entities**	Associates	Significant shareholders/ entities in which Directors are interested	Senior management	Other entities
Income/(expenses)								
Investment banking income	**2,716**	**-**	**-**	**243**	(79,141)	-	-	(11,274)
Net finance income / (expense)	**(1,018)**	**-**	**-**	**(282)**	(939)	-	-	(3,164)
Share of profit of associates	**6,444**	**-**	**-**	**-**	6,788	-	-	-
Other income	**-**	**1,469**	**-**	**914**	-	-	-	(1,237)
Reversals of impairment and provision /(charge)	**4,037**	**-**	**-**	**-**	(29,862)	-	-	(9,356)
Directors' and Shari'ah board remuneration and expenses	**-**	**(716)**	**-**	**(220)**	-	(712)	-	(421)

In 2010, the Bank and another related party entity mutually agreed to cancel investment banking fee mandates due to the Bank amounting to US$30 million, as the management are of the view that the services under these mandates were not provided by the Bank during 2010. This cancellation was ratified by the Bank's Board of Directors.

22. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to investment and credit risk, market risk, liquidity risk and operational risks.

– Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. Starting in 2010, Risk Management infrastructure was enhanced by the re-establishment of the risk management function for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk as well as the monitoring and controlling of exposures on a global basis.
– Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
– Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities are regularly reviewed. In the past year the Bank implemented a number of risk policies and is also reviewing its corporate governance arrangements with a view to strengthening corporate governance arrangements and complying with new corporate governance requirements.
– Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the board-approved risk framework, the Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. In 2010 the Board approved an enhanced Group Risk Management Framework that addresses risk governance at the Group level. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy. In 2011, the Board of Directors initiated a corporate governance review exercise encompassing review of corporate governance arrangements, committee memberships, corporate governance policies and procedures with a view to improving corporate governance and comply with new corporate governance requirements.

22. RISK MANAGEMENT (continued)

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities. In 2011 the Board of Directors established a board level Risk Committee to provide board risk management oversight in addition to executive management risk committee structures already in place.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, within the framework of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework' (Basel II) recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Internal Audit and Independent Review

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Group Asset and Liability Committee (ALCO)

The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. With the establishment of the Board Risk Committee, the Chief Risk Officer's reporting lines were re-aligned through reporting to the Chief Executive Officer with a dotted line reporting to the Board Risk Committee. Risk Management conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle including periodic valuation and reporting.

Treasury Activities

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Capital Markets and Institutional Banking

Capital Markets and Institutional Banking is responsible for the development of the Group's medium and long term funding capability and the establishment of all key inter-bank and financial institution relationships. Institutional Banking undertakes diversification strategies to widen the Group's funding base and reduce geographical exposure and concentration risks.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

22. RISK MANAGEMENT (continued)

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee.

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risks
- operational risks

This information about the Group's exposure to each of the above risks, it's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 22 to 25 and 32.

23. CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

In order to strengthen the Bank's credit risk management processes through a rigorous analysis of the credit worthiness of both current and potential obligors, the Bank introduced Internal Credit Rating Models covering corporate entities, banking counterparties and real estate exposures. The ratings coming out of the rating models are used together with other supporting information on the obligor's creditworthiness when making credit decisions. The Internal credit rating models follow the same methodology as used by a major External Credit Rating Institution, thereby allowing for mapping of the Bank's ratings with ECAI ratings.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activities and other client groups in close cooperation with Risk Management and proposes limits for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 2011	Maximum exposure 2010
Balances with banks	**11,061**	43,928
Placements with financial institutions	**66,477**	72,437
Financing receivables	**95,838**	229,413
Investment securities – Sukuk	**23,396**	14,074
Other assets	**35,477**	3,994
Guarantees	**3,292**	3,357
	235,541	367,203

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

23. CREDIT RISK (continued)

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2011 was US$39.2 million (2010: US$60.9 million), relating to "placement with financial institution and financing receivables".

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

	Total assets	Off-balance sheet	Total 2011	Total 2010
Region				
Bahrain	24,808	-	**24,808**	45,027
Other Middle East	111,672	-	**11,672**	231,036
North America	13,530	3,000	**16,530**	32,931
Asia Pacific	75,384	-	**75,384**	48,047
Europe	6,855	292	**7,147**	10,162
Total	232,249	3,292	**235,541**	367,203

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	Assets	Off-balance sheet	Total 2011	Total 2010
Industry Sector				
Banking and finance	108,213	292	**108,505**	137,761
Industrial	17,624	-	**17,624**	2,176
Real estate and construction	43,898	-	**43,898**	121,390
Technology	3,090	3,000	**6,090**	3,842
In-house funds	263	-	**263**	283
Trade	48,284	-	**48,284**	86,988
Government	2,732	-	**2,732**	-
Individual	8,145	-	**8,145**	14,763
Total	232,249	3,292	**235,541**	367,203

Collateral and other credit enhancements

The Group utilises collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

23. CREDIT RISK (continued)

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2011. Following is an analysis of credit quality by class of financial assets:

	2011				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairment/ provisions**	**Total**
Balances with banks	**11,061**	**-**	**-**	**-**	**11,061**
Placements with financial institutions	**66,477**	**-**	**-**	**-**	**66,477**
Financing receivables	**95,838**	**-**	**-**	**-**	**95,838**
Investment securities - Sukuk	**23,396**	**-**	**-**	**-**	**23,396**
Other assets	**35,250**	**227**	**8,768**	**(8,768)**	**35,477**
Guarantees	**3,292**	**-**	**-**	**-**	**3,292**
Total	**235,314**	**227**	**8,768**	**(8,768)**	**235,541**

Exposures that are past due but not impaired are either past due for less than 30 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	2010				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairment/ provisions	Total
Balances with banks	43,928	-	-	-	43,928
Placements with financial institutions	72,437	-	-	-	72,437
Financing receivables	229,155	258	6,614	(6,614)	229,413
Investment securities - Sukuk	12,979	-	3,650	(2,555)	14,074
Other assets	3,925	69	5,675	(5,675)	3,994
Guarantees	3,357	-	-	-	3,357
Total	365,781	327	15,939	(14,844)	367,203

Ageing analysis of past due but not impaired by class of financial assets:

	2011			
	Less than 120 days	**Less than 365 days**	**More than 365 days**	**Total**
Other assets	11	99	117	227

	2010			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Financing receivables	235	23	-	258
Other assets	30	39	-	69

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

24. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key features of the Group's liquidity methodology are:

– The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
– In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
– ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.
– The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 2011					
Due to financial and non-financial Institutions	**192,134**	**41,261**	**-**	**233,395**	**231,661**
Other liabilities	**7,099**	**-**	**2,389**	**9,488**	**9,488**
Total financial liabilities	**199,233**	**41,261**	**2,389**	**242,883**	**241,149**

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2010					
Due to financial and non-financial Institutions	354,850	41,055	-	395,905	393,980
Subordinated Murabaha	733	3,549	62,467	66,749	51,249
Other liabilities	8,697	6,006	3,232	17,935	17,935
Total financial liabilities	364,280	50,610	65,699	480,589	463,164

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	**3 to 12 months**	**Over 1 year**	**Carrying value**
31 December 2011				
Commitments	**-**	**2,325**	**2,373**	**4,698**
Guarantees	**3,292**	**-**	**-**	**3,292**
Total	**3,292**	**2,325**	**2,373**	**7,990**

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

24. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2010				
Commitments	1,137	1,827	4,767	7,731
Guarantees	3,357	-	-	3,357
Total	4,494	1,827	4,767	11,088

25. MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk and due to financial and non-financial institutions.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2011			2010		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	**66,477**	**200**	**1,301**	72,437	200	1,347
Financing receivables	**95,838**	**200**	**1,556**	229,413	200	2,537
Investment securities - Sukuk	**23,396**	**200**	**14**	14,074	200	6
Liabilities						
Due to financial and non-financial institutions	**231,661**	**200**	**(3,795)**	315,924	200	(4,586)
Total			**(924)**			(696)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

25. MARKET RISK MANAGEMENT (continued)

Equity price risk (continued)
The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	2011			2010		
	Exposure (USD equivalent)	**Effect on net profit (+/-)**	**Effect on equity (+/-)**	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Currency						
Kuwaiti Dinar	**(12,275)**	**(2,455)**	**-**	(12,134)	(2,427)	-
Turkish Lira	**8,370**	**243**	**1,431**	15,399	1,157	1,923
Malaysian Ringgit	**2,588**	**-**	**518**	4,373	-	875
Euro	**(12)**	**(2)**	**-**	1,174	(7)	242
Jordanian Dinar	**38,868**	**7,774**	**-**	28,136	5,627	-
Sterling Pounds	**315**	**63**	**-**	212	42	-

Equity price risk
Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

The effect on income and equity (as a result of a change in the fair value of equity instruments as at 31 December 2011) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$15.1 million and US$1.0 million, respectively (2010: US$14.4 million and US$3.9 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected.

The Group is not exposed to any significant prepayment risk.

26. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 December 2011							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1year	Undated	Total
Assets								
Cash and balances with banks	**11,081**	**-**	**-**	**-**	**11,081**	**-**	**-**	**11,081**
Placements with financial institutions	**62,945**	**2,656**	**876**	**-**	**66,477**	**-**	**-**	**66,477**
Financing receivables	**9,224**	**19,760**	**19,110**	**47,744**	**95,838**	**-**	**-**	**95,838**
Investment securities	**-**	**-**	**11,646**	**29,202**	**40,848**	**89,535**	**-**	**130,383**
Investments in associates	**-**	**-**	**-**	**-**	**-**	**-**	**114,952**	**114,952**
Investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**17,706**	**17,706**
Other assets	**726**	**37,147**	**-**	**-**	**37,873**	**679**	**-**	**38,552**
Equipment	**-**	**-**	**-**	**-**	**-**	**-**	**5,483**	**5,483**
Assets held-for-sale	**-**	**2,560**	**-**	**-**	**2,560**	**-**	**-**	**2,560**
Total assets	**83,976**	**62,123**	**31,632**	**76,946**	**254,677**	**90,214**	**138,141**	**483,032**
Liabilities								
Due to financial and non-financial institutions	**68,065**	**123,100**	**38,682**	**1,814**	**231,661**	**-**	**-**	**231,661**
Subordinated Murabaha	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**33**	**7,066**	**-**	**6,717**	**13,816**	**2,389**	**-**	**16,205**
Liabilities held-for-sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**68,098**	**130,166**	**38,682**	**8,531**	**245,477**	**2,389**	**-**	**247,866**
Commitments	**3,292**	**362**	**362**	**1,601**	**5,617**	**2,373**	**-**	**7,990**
Net liquidity gap	**12,586**	**(68,405)**	**(7,412)**	**66,814**	**3,583**	**85,452**	**138,141**	**227,176**
Net cumulative gap	**12,586**	**(55,819)**	**(63,231)**	**3,583**	**3,583**	**89,035**	**227,176**	

	31 December 2010							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1year	Undated	Total
Assets								
Cash and balances with banks	43,943	-	-	-	43,943	-	-	43,943
Placements with financial institutions	57,479	10,513	3,506	939	72,437	-	-	72,437
Financing receivables	10,049	88,299	84,013	30,000	212,361	17,052	-	229,413
Investment securities	6,404	5,783	9,234	47,159	68,580	53,833	-	122,413
Investments in associates	-	-	-	-	-	-	104,745	104,745
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	629	6,910	-	-	7,539	1,093	-	8,632
Equipment	-	-	-	-	-	-	7,147	7,147
Assets held-for-sale	-	120,923	-	-	120,923	-	-	120,923
Total assets	118,504	232,428	96,753	78,098	525,783	71,978	129,598	727,359
Liaiblities								
Due to financial and non-financial institutions	231,947	121,391	40,642	-	393,980	-	-	393,980
Subordinated Murabaha	-	1,249	-	-	1,249	50,000	-	51,249
Other liabilities	1,461	7,236	-	11,042	19,739	7,957	-	27,696
Liabilities held-for-sale	-	52,617	-	-	52,617	-	-	52,617
Total liabilities	233,408	182,493	40,642	11,042	467,585	57,957	-	525,542
Commitments	4,494	-	362	1,465	6,321	4,767	-	11,088
Net liquidity gap	(119,398)	49,935	55,749	65,591	51,877	138,852	129,598	190,729
Net cumulative gap	(119,398)	(69,463)	(13,714)	51,877	51,877	61,131	190,729	

28. SEGMENT INFORMATION

Operating segments are reported in accordance with the internal reporting provided to the Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8. (Note: There is no equivalent AAOIFI standard)

For management purposes, the Group is organised into business units based on their nature of operations and services and has six reportable operating segments which are as follows:

Capital Markets and Treasury

The Group's capital markets business is engaged in structuring, managing and placing financing and equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book.

The Group's treasury business provides Shari'ah compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.

Private Equity

The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.

Asset Management

The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.

Strategic Mergers and Acquisitions ("SM&A")

The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

Other

Other' comprises the central management, support functions and subsidiaries of the Group.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

28. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2011						
	Capital Markets and Treasury	**Private Equity**	**Asset Management**	**SM&A**	**Other**	**Elimination**	**Total**
External revenue							
Net finance expense	**2,050**	**(1,778)**	**(83)**	**(3,605)**	**3,885**	**-**	**469**
Investment banking profit	**5,654**	**6,369**	**146**	**3,474**	**423**	**-**	**16,066**
Share of profit of associates	**-**	**-**	**-**	**6,444**	**-**	**-**	**6,444**
Other income	**54**	**226**	**(384)**	**152**	**3,057**	**-**	**3,105**
Inter-segment income	**-**	**-**	**405**	**-**	**65**	**(470)**	**-**
Total income/(loss)	**7,758**	**4,817**	**84**	**6,465**	**7,430**	**(470)**	**26,084**
Total operating expenses	**(2,590)**	**(1,625)**	**(293)**	**(1,746)**	**(35,368)**	**-**	**(41,622)**
Reversal of impairment and provisions / charge for the year	**(2,527)**	**-**	**-**	**-**	**6,537**	**-**	**4,010**
Profit from assets held-for-sale	**-**	**14,497**	**-**	**-**	**-**	**-**	**14,497**
Provisions for taxation	**-**	**-**	**-**	**-**	**(1,800)**	**-**	**(1,800)**
Profit/(loss) for the year)	**2,641**	**17,689**	**(209)**	**4,719**	**(23,201)**	**(470)**	**1,169**
Investment in associates	**-**	**-**	**-**	**114,952**	**-**	**-**	**114,592**
Capital expenditure	**-**	**-**	**-**	**-**	**66**	**-**	**66**
Segment assets	**185,667**	**83,339**	**-**	**147,977**	**66,049**	**-**	**483,032**
Segment liabilities	**15,625**	**47,900**	**2,209**	**97,120**	**85,012**	**-**	**247,866**

	For the year ended 31 December 2010 (restated)						
	Capital Markets and Treasury	Private Equity	Asset Management	SM&A	Other	Elimination	Total
External revenue							
Net finance expense	(1,067)	(2,633)	(524)	(1,259)	(12)	-	(5,495)
Investment banking loss	(2,864)	(85,237)	(391)	(16,290)	(7,828)	-	(112,610)
Share of profit of associates	-	4,122	-	2,666	-	-	6,788
Other income	726	1,511	-	-	2,819	-	5,056
Inter-segment income	1,042	634	-	77	624	(2,377)	-
Total income/(loss)	(2,163)	(81,603)	(915)	(14,806)	(4,397)	(2,377)	(106,261)
Total operating expenses	(4,832)	(1,941)	(2,394)	(4,958)	(53,306)	-	(67,431)
Impairments and provisions	(6,614)	(7,081)	(1,964)	(29,408)	(8,869)	-	(53,936)
Provisions for taxation	-	-	-	-	(1,868)	-	(1,868)
Loss for the year	(13,609)	(90,625)	(5,273)	(49,172)	(68,440)	(2,377)	(229,496)
Investment in associates	-	-	-	104,745	-	-	104,745
Capital expenditure	-	-	-	-	299	-	299
Segment assets	313,730	178,772	5,855	132,694	96,897	-	727,948
Segment liabilities	127,465	240,709	37,456	89,952	29,960	-	525,542

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

28. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments .

31 December 2011	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	**2,288**	**14,086**	**1,976**	**3,031**	**4,703**	**26,084**
Net income/(loss)	**(20,635)**	**5,345**	**15,388**	**(602)**	**1,673**	**1,169**
Non-current assets*	**22,112**	**457**	**-**	**556**	**64**	**23,189**

31 December 2010 (restated)	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total (loss)/income	(31,569)	(22,903)	(50,222)	(3,921)	2,354	(106,261)
Net income/(loss)	(74,243)	(87,261)	(52,485)	(9,789)	(5,718)	(229,496)
Non-current assets*	23,406	657	19	709	62	24,853

* includes equipment and investment property

29. SHARI'AH SUPERVISORY BOARD

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

30. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

31. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

32. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2011 was nil (2010: nil per share).

33. CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. CBB capital adequacy regulations are based on the principles of Basel II and IFSB capital adequacy guidelines.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, includes ordinary share capital, disclosed reserves including share premium, general reserves, legal / statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, includes interim retained profits reviewed by the auditors and an allowed portion profit equalisation reserve (PER) and investment risk reserves (IRR). As per CBB, the PER & IRR can be up to a maximum amount equal to the capital charge pertaining to 30% of the risk weighted assets financed by unrestricted investment accounts.

Certain limits are applied to elements of the capital base in line with regulatory requirements. Tier 1 capital should represent at least half of the total eligible capital, i.e., Tier 2 capital is limited to 100% of Tier 1 capital. The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to Prudential Consolidation and Deduction Requirements (PCD) Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation, pro-rata consolidation or deduction where the own controlling or significant minority stakes in regulated financial entities, insurance entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the standardised approach for credit risk regulatory capital computation purposes and basic indicator approach for operational risk regulatory capital computation purposes under the CBB capital adequacy framework. The Bank does not have Basel II permissible credit risk mitigants against any of its credit exposures.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

33. CAPITAL MANAGEMENT (continued)

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy rules determined by the Central Bank of Bahrain, is as follows:

	2011	2010
Regulatory capital base:		
Tier 1 capital	**122,960**	105,294
Tier 2 capital	-	17,364
Total regulatory capital	**122,960**	122,658
Risk-weighted assets	**568,630**	903,114
Tier 1 capital adequacy ratio	**21.62%**	11.66%
Total capital adequacy ratio	**21.62%**	13.58%

The Bank has complied with all externally imposed capital requirements throughout the year.

Capital allocation

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

34. COMPARATIVES

Certain prior period amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported profit or equity except to the extent of change in accounting policy due to adoption of new standards as described in notes 3 (a) and (b).