

Unicorn Investment Bank B.S.C. (c)  
Consolidated Financial Statements

For the year ended 31 December 2010

**Contents**

<b>02</b>	Independent Auditors' Report
<b>03</b>	Shari'ah Supervisory Board Report
<b>04</b>	Consolidated Statement of Financial Position
<b>05</b>	Consolidated Statement of Income
<b>06</b>	Consolidated Statement of Comprehensive Income
<b>07</b>	Consolidated Statement of Changes in Equity
<b>08</b>	Consolidated Statement of Cash Flows
<b>09</b>	Consolidated Statement of Restricted Investment Accounts
<b>10</b>	Notes to the Consolidated Financial Statements



# Independent Auditors' Report

## to the shareholders of Unicorn Investment Bank B.S.C. (c)

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Unicorn Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, changes in equity, cash flows and restricted investment accounts for the year then ended, notes, comprising a summary of significant accounting policies and other explanatory information.

### Board of Directors' Responsibility for the Consolidated Financial Statements

The Bank's board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles.

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

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

### Report on Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Group and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Memorandum and Articles of Association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Group or on its financial position and that the Bank has complied with the terms of its banking license and has also complied with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Bank.



31 January 2011  
Manama, Kingdom of Bahrain

## Shari'ah Supervisory Board Report to the shareholders of Unicorn Investment Bank B.S.C. (c)

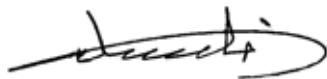
### ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

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 Unicorn Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2010. We have conducted our review with a view to form an opinion as to whether the Group has complied with 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 to you.

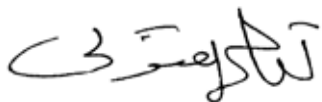
We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations 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.



**Dr. Khalid Mathkooor Al-Mathkooor**



**Dr. Abdul Sattar Abu Ghuddah**



**Sh. Nizam Mohammed Yaqoub**

In our opinion:

- a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2010 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. Aagil Jasim Al-Nashmy**



**Dr. Ali Muhyealdin Al-Quradaghi**



**Dr. Mohammed Daud Baker**

31 January 2011 G

# Consolidated Statement of Financial Position

At 31 December 2010

(Amounts in United States Dollars thousands)

	Notes	31 December 2010	31 December 2009
<b>ASSETS</b>			
Cash and balances with banks	3	43,943	135,918
Due from financial and non-financial institutions	4	301,850	301,043
Investment securities	5	122,413	247,999
Investments in associates and joint ventures	6	104,745	151,348
Investment properties	7	17,706	29,164
Other assets	8	8,632	116,710
Premises and equipment		7,147	8,797
Assets held for sale	9	120,923	40,622
Goodwill and intangible assets	10	-	2,018
<b>TOTAL ASSETS</b>		<b>727,359</b>	1,033,619
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to financial and non-financial institutions	11	393,980	521,423
Subordinated Murabaha	12	51,249	50,000
Other liabilities	13	27,696	24,988
Liabilities relating to assets held for sale		52,617	13,556
<b>TOTAL LIABILITIES</b>		<b>525,542</b>	609,967
<b>EQUITY</b>			
Share capital	14	215,578	215,578
Share premium	15	141,708	141,708
Statutory reserve	16	15,580	15,580
Fair value reserve		189	10,280
Foreign currency translation reserve		(6,112)	(6,761)
(Accumulated losses)/retained earnings		(215,004)	3,324
Total equity attributable to the shareholders of the parent		151,939	379,709
Non-controlling interests		34,605	37,321
Non-controlling interests held for sale		15,273	6,622
<b>TOTAL EQUITY</b>		<b>201,817</b>	423,652
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>727,359</b>	1,033,619

The consolidated financial statements were authorised for issue by the Board of Directors on 31 January 2011 and signed on their behalf by:



**Yousef Abdullah Al-Shelash**  
Chairman



**Hethloul Saleh Al-Hethloul**  
Board Member

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

## Consolidated Statement of Income

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	Notes	31 December 2010	31 December 2009
Investment banking fees	17	8,145	74,146
Other investment banking income	18	2,898	14,266
Investment banking income		11,043	88,412
Net expense from financial and non-financial institutions	19	(5,495)	(9,327)
Net income from non-banking activities		-	21,056
Share of profit/(loss) of associates and joint ventures		6,788	(3,662)
<b>Total income</b>		<b>12,336</b>	96,479
Operating expenses	20	(69,299)	(75,213)
<b>(Loss)/profit before impairments and provisions and fair value movements</b>		<b>(56,963)</b>	21,266
Impairments and provisions	21	(53,936)	(7,900)
Fair value movements on investment securities	21	(118,597)	(8,966)
<b>(Loss)/profit for the year from continuing operations and before tax</b>		<b>(229,496)</b>	4,400
Profit from assets held for sale		-	1,246
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(229,496)</b>	5,646
Income tax expense		-	(3,411)
<b>NET (LOSS)/PROFIT</b>		<b>(229,496)</b>	2,235
Attributable to:			
Shareholders of the parent		(226,811)	(5,079)
Non-controlling interests		(2,685)	7,003
Non-controlling interests held for sale		-	311
		<b>(229,496)</b>	2,235

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

## Consolidated Statement of Comprehensive Income

### For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	31 December 2010	31 December 2009
<b>Net (loss)/profit</b>	<b>(229,496)</b>	2,235
<b>Other comprehensive loss:</b>		
Exchange differences on translating foreign operations	<b>(294)</b>	(1,149)
Changes in investment securities fair value	<b>(1,468)</b>	(190)
Share of other comprehensive income of associates	<b>772</b>	175
<b>Other comprehensive loss for the year</b>	<b>(990)</b>	(1,164)
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>	<b>(230,486)</b>	1,071
Attributable to:		
Shareholders of the parent	<b>(227,770)</b>	(6,253)
Non-controlling interests	<b>(2,716)</b>	7,013
Non-controlling interests held for sale	<b>-</b>	311
	<b>(230,486)</b>	1,071

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	Attributable to the shareholders of the parent							Advances for proposed increase in share capital	Non-controlling interests	Non-controlling interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	(Accumulated losses)/retained earnings	Total				
Balance at 1 January 2010	215,578	141,708	15,580	10,280	(6,761)	3,324	379,709	-	37,321	6,622	423,652
Net loss	-	-	-	-	-	(226,811)	(226,811)	-	(2,685)	-	(229,496)
Other comprehensive (loss)/profit for the year	-	-	-	(1,608)	649	-	(959)	-	(31)	-	(990)
Transfer from fair value reserve	-	-	-	(8,483)	-	8,483	-	-	-	-	-
Net movement in non-controlling interests held for sale	-	-	-	-	-	-	-	-	-	8,651	8,651
<b>Balance at 31 December 2010</b>	<b>215,578</b>	<b>141,708</b>	<b>15,580</b>	<b>189</b>	<b>(6,112)</b>	<b>(215,004)</b>	<b>151,939</b>	<b>-</b>	<b>34,605</b>	<b>15,273</b>	<b>201,817</b>
Balance at 1 January 2009	183,740	71,216	15,580	61,765	(5,606)	2,945	329,640	110,059	7,901	6,311	453,911
Net (loss)/income	-	-	-	-	-	(5,079)	(5,079)	-	7,003	311	2,235
Other comprehensive (loss)/profit for the year	-	-	-	(19)	(1,155)	-	(1,174)	-	10	-	(1,164)
Transfer from fair value reserve	-	-	-	(5,458)	-	5,458	-	-	-	-	-
Business combination related movements	-	-	-	(46,008)	-	-	(46,008)	-	-	-	(46,008)
Issuance of additional shares	31,838	95,514	-	-	-	-	127,352	(110,059)	-	-	17,293
Equity transaction costs incurred	-	(25,022)	-	-	-	-	(25,022)	-	-	-	(25,022)
Loss of controlling interests	-	-	-	-	-	-	-	-	(34,742)	-	(34,742)
Non-controlling interests arising on business combination	-	-	-	-	-	-	-	-	57,149	-	57,149
Balance at 31 December 2009	215,578	141,708	15,580	10,280	(6,761)	3,324	379,709	-	37,321	6,622	423,652

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	31 December 2010	31 December 2009
<b>OPERATING ACTIVITIES</b>		
Net (loss)/profit for the year	(229,496)	2,235
Adjustments for:		
Gain on sale of investment securities	(4,874)	(5,440)
Fair value loss on investment properties	11,458	9,374
Impairments and provisions	48,316	7,900
Fair value movements on investment securities	118,597	8,966
Share of (profit)/loss of associates and joint ventures	(6,788)	3,662
Profit from assets held for sale	-	(1,246)
Share-based payments	-	1,375
Depreciation and amortisation	2,480	3,027
Subordinated Murabaha	1,249	-
	(59,058)	29,853
Changes in:		
Due from financial and non-financial institutions	(132,404)	(3,106)
Other assets	98,236	(55,901)
Inventories	-	2,869
Due to financial and non-financial institutions	(127,443)	119,276
Other liabilities	(1,702)	(73,444)
Proceeds from sale of investment securities	52,879	62,265
Purchase of investment securities	(40,610)	(119,388)
<b>Net cash used in operating activities</b>	<b>(210,102)</b>	<b>(37,576)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of premises and equipment	(299)	(8,566)
Disposals of assets held for sale	7,049	-
Investment in associates	-	(12,527)
Purchase of assets held for sale	(20,144)	-
Net cash on disposal of subsidiary	-	(89,310)
Acquisition of subsidiaries, net of cash acquired	-	111,586
<b>Net cash (used in) from investing activities</b>	<b>(13,394)</b>	<b>1,183</b>
<b>FINANCING ACTIVITIES</b>		
Subordinated Murabaha	-	50,000
<b>Net cash from financing activities</b>	<b>-</b>	<b>50,000</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(223,496)</b>	<b>13,607</b>
Foreign currency translation adjustments	(76)	74
Cash and cash equivalents at the beginning of the year	433,855	420,174
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>210,283</b>	<b>433,855</b>
Cash and cash equivalents comprise:		
Cash and balances with banks (note 3)	43,943	135,918
Due from financial and non-financial institutions	166,340	297,937
	<b>210,283</b>	<b>433,855</b>

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.



## Consolidated Statement of Restricted Investment Accounts For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

	At 1 January 2010	Deposit	Gross Income	Wakil Fee	Withdrawals	At 31 December 2010
<b>Wakala contract</b>	<b>240,132</b>	<b>78,929</b>	<b>4,931</b>	<b>(956)</b>	<b>(323,036)</b>	<b>-</b>

	At 1 January 2009	Deposit	Gross Income	Wakil Fee	Withdrawals	At 31 December 2009
Wakala contract	-	240,000	188	(56)	-	240,132

The attached explanatory notes 1 - 37 form part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 1. CORPORATE INFORMATION

Unicorn Investment Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain. In accordance with the revised banking regulations of the Central Bank of Bahrain, the Bank was granted a Wholesale Bank (Islamic Principles) Licence on 24 April 2007. The Bank's registered office is at the 3rd to 7th floors of Building No. 2304, Road No. 2830, Seef District 428, 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.

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

The number of Group employees as at 31 December 2010 was 156 (2009: 187).

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities and investment properties at fair value. The consolidated financial statements are presented in United States Dollars, this being the functional currency of the Group's operations.

#### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 31.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. 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.

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

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. A change in the ownership interest of the subsidiary, without a change in control, is accounted for as an equity transaction. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the consolidated statement of income in the year of acquisition.

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

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
<b>UIB Capital Inc.</b>	100%	2004	United States of America ("USA")

The main activities of UIB Capital Inc. are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.

The operations of UIB Inc. were closed in 2010 due to a strategic shift from North America to core regional markets.

<b>Unicorn International Islamic Bank Malaysia Berhad</b>	100%	2004	Malaysia
---	------	------	----------

Unicorn 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.

Unicorn International Islamic Bank Malaysia Berhad was granted an investment banking licence in 2007 by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.

<b>Unicorn Capital Menkul Değerler A.Ş.</b>	91.9%	2007	Turkey
---	-------	------	--------

The main activities of Unicorn Capital Menkul Değerler A.Ş. are to provide investment consultancy, asset management, underwriting and brokerage services.

<b>Unicorn Capital Saudi Arabia</b>	53.4%	2009	Kingdom of Saudi Arabia
-------------------------------------	-------	------	-------------------------

Unicorn Capital Saudi Arabia ("UCSA") was granted a certificate of incorporation by the Saudi Arabia Capital Markets Authority in March 2009. Its principal activities are Investment banking.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. ACCOUNTING POLICIES (continued)

### 2.2 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are evaluated on the continuous basis, and also based on past experience including expectations of future events. The most significant use of judgments and estimates are as follows:

#### *Going concern*

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

On account of the significant losses incurred during 2010, the Bank anticipates a rights issue targeting a capital increase of US\$200 million, consisting of 200 million shares at a price of US\$1 per share with expected closing date on 30 June 2011. The rights issue will be conditional on the approval by the shareholders at an extra ordinary general meeting expected to be held by March 2011 and approval from the relevant regulatory authorities.

#### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position 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 investments that are traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated statement of financial position date.
- For unquoted private equity investments, fair value is determined by reference to recent arm's length market transactions with non related parties, current fair value of another instrument that is substantially the same and other valuation models including but not limited to the net present value of estimated future cash flows. Where the management has decided to shift focus and dispose its unquoted private equity portfolio, fair value is also determined based on indicative offers made to the Bank from the prospective buyers.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

#### *Impairment of goodwill*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on the discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rates used for extrapolation purposes.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.2 Significant accounting judgements and estimates (continued)

##### New and amended standards and interpretations

The following are amendments in IFRS, IFRIC interpretations and FAS that are relevant to the Group, which became effective in 2010:

Standard	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payments (Revised) – Cash settled share based transactions	1 January 2010
IFRS 3	Business combinations (Revised)	1 January 2010
IAS 27	Consolidated and Seperate Financial Statements (Amended)	1 January 2010
IFRIC 17	Distributions of non-cash assets to owners	1 January 2010
FAS 23	Consolidation	1 January 2010
FAS 24	Associates	1 January 2010

The adoption of the standards or interpretations is described below:

#### 2.3 Changes in accounting policies and disclosures

##### *IFRS 2 Share-based payments (Revised) - Cash settled share based transactions*

The International Accounting Standards Board (IASB) issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The adoption of this amendment did not have a material impact on the financial position or performance of the Group.

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

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

##### *IFRIC 17 Distributions of non-cash assets to owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this interpretation did not have a material impact on the financial position or performance of the Group.

##### *Financial Accounting Standard No. 23 Consolidation and Financial Accounting Standard No. 24 Associates*

FAS 23 sets out the principles for determining entities that are subject to be included in the consolidated financial statements of a parent and prescribes the accounting for investment in subsidiaries by parent.

FAS 24 sets out the accounting principles for recognising, measuring, presenting and disclosing the investments in associate.

The requirements of FAS 23 and FAS 24 are largely in line with the current policies followed by the Group for accounting of subsidiaries and associates and the adoption of these standards are not expected to have any material impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies and disclosures (continued)

The adoption of the above amendments did not have a material impact on the financial position or performance of the Group at 31 December 2010.

#### 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

##### **Foreign currency translation**

The consolidated financial statements are presented in United States Dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### *Transactions and balances*

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated statement of financial position date. All differences are taken to 'Other income' or 'Other operating expenses' in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items held at fair value through profit or loss are recognised as part of fair value gains or loss and those on non-monetary items classified as held for sale are included in the fair value reserve in equity.

##### *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 consolidated statement of financial position 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 statement of income.

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.

##### **Financial instruments – initial recognition and subsequent measurement**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, due from financial and non-financial institutions, investment securities and receivables from clients. Financial liabilities consist of due to financial and non financial institutions, subordinated Murabaha and other liabilities.

##### *Date of recognition*

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

##### *Due from financial and non-financial institutions*

Due from financial and non-financial institutions comprise commodity Murabaha receivables. They are stated net of deferred profits and provision for impairment, if any.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.4 Summary of significant accounting policies (continued)

##### Financial instruments – initial recognition and subsequent measurement (continued)

Murabaha receivables are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to the murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period.

##### *Investment securities*

Investment securities are initially recognised at fair value, and are classified as either “carried at fair value through statement of income” or “available for sale”.

Following the initial recognition, investment securities are remeasured using the following policies:

##### *(i) Investments carried at fair value through statement of income*

Investments are classified as “carried at fair value through statement of income” if they are designated on the date of acquisition (i.e. initial recognition) as carried at fair value through statement of income. The Group’s venture capital (“VC”) investments that fall under IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures are also classified under IAS 39 as “investments carried at fair value through statement of income” by utilising the VC exemption in IAS 28. The Group’s investments other than VC that fall under IAS 28 and IAS 31 are classified as associates.

Investments classified as “carried at fair value through statement of income” are subsequently remeasured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the statement of income as “other investment banking income”. The gains and losses are transferred to/from the fair value reserve in the consolidated statement of changes in equity in accordance with AAOIFI.

##### *(ii) Available for sale investments*

Investments are classified as “available for sale” if they are not classified as carried at fair value through statement of income. They mainly include strategic equity investments and Sukuk.

Sukuk in this category are those instruments which are intended to be held for an indefinite period of time over the Sukuk’s maturity and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, investments which are classified as “available for sale” are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the consolidated statement of income for the year. The losses arising from impairment of such investments are recognised in the consolidated statement of income and are excluded from the consolidated statement of changes in equity.

##### *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 principal plus accrued cost payable.

##### *Subordinated Murabaha*

Subordinated Murabaha are based on the principles of Murabaha contracts and are convertible in to Bank’s ordinary shares at a mutually agreed price, at the discretion of the seller. Subordinated Murabaha are initially recognised at the fair value of consideration and are subsequently measured at amortised cost.

#### De-recognition of financial instruments

##### *Financial assets*

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

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either:

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Summary of significant accounting policies (continued)

#### De-recognition of financial instruments (continued)

- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial liabilities*

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

#### *Impairment of financial assets*

The Group assesses at each statement of financial position 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.

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

In the case of Sukuk classified as available for sale, impairment is assessed based on the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset. Profit will stop accruing from the date of impairment. If, in a subsequent year, the fair value of a Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### **Impairment of non financial assets**

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. As asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the statement of income only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.



# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.4 Summary of significant accounting policies (continued)

##### 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.

##### 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.

##### Recognition of income and expense

###### Income recognition

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:

###### *Investment banking fees*

Investment banking fees represent: (i) advisory and placement fees; (ii) arrangement and underwriting fees; (iii) performance fees; and (iv) structuring fees. The performance fees are recognised upon successful completion of the transaction, while the other fees are recognised when the related services are rendered.

###### *Income from financial and non-financial institutions*

Income from financial and non-financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the agreed profit.

###### *Other investment banking income*

Other investment banking income includes dividend income, fair value (write-downs)/gain on investment properties, gain on sale of investment securities, management fees and other income.

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

###### Expense recognition

Expenses are recognised on the following bases:

###### *Employees' end of service benefits*

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the Social Insurance Organisation ("SIO") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

###### *Expense due to financial and non-financial institutions*

Expense due to financial and non-financial institutions are recognised on a time apportioned basis over the period of the contracts based on the principal amounts outstanding and the profit agreed with clients.

###### *Zakah*

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Summary of significant accounting policies (continued)

#### Expense recognition (continued)

##### *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.

##### **Cash and cash equivalents**

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises: cash and balances with banks; and amounts due from financial and non-financial institutions with an original maturity of three months or less.

##### **Investments in associates**

The Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of other comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Distributions received from an associate reduce the carrying amount of investment.

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.

##### **Investments in joint venture**

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

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

Profits and losses resulting from transactions with a joint venture are eliminated to the extent of the Group's share in the joint venture.

##### **Investment properties**

Investment properties are 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 statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

In accordance with AAOIFI, unrealised gains or losses are appropriated to the fair value reserve and are transferred to retained earnings only when realised.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 2. ACCOUNTING POLICIES (continued)

#### 2.4 Summary of significant accounting policies (continued)

##### Investment properties (continued)

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 profit or loss in the year of retirement or disposal.

##### Premises and equipment

Premises and equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation.

##### Assets held for sale

Assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

##### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

##### 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.

##### Fiduciary assets

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Summary of significant accounting policies (continued)

#### Equity transaction costs

Incremental equity transaction costs are directly attributable to the issue of new shares and are shown in equity as a deduction, from share premium.

#### Segment reporting

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 32.

#### 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.

#### Standards issued but not effective

Following are the relevant IFRS that have been issued, to be applied to the Group's financial statements but are not yet mandatory for these consolidated financial statements:

#### *IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance.

#### *IAS 32 Financial Instruments: Classification and Measurement*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

#### *IFRS 9 Financial Instruments Part 1 and 2: Classification and measurement*

IFRS 9 was issued by IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets and financial liability. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) measured subsequently at amortised cost. An instrument is subsequently measured at amortised cost only if it is a sukuk. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through the statement of income. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to statement of income.

The classification criteria for financial liabilities contained in IAS 39 move to IFRS9 unchanged and the IAS 39 classification categories of amortised cost and fair value through profit or loss are retained. For a financial liability designated as at fair value through profit or loss using the fair value option, the change in the liability's fair value attributable to changes in the liability's credit risk is recognised directly in other comprehensive income, unless it creates or increases an accounting mismatch. The amount that is recognised in other comprehensive income is not recycled when the liability is settled or extinguished. The meaning of credit risk is clarified to distinguish credit risk from asset-specific performance risk. The cost exemption in IAS 39 for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 3. CASH AND BALANCES WITH BANKS

	2010	2009
Cash on hand	15	27
Balances with banks	43,928	85,891
Cash in transit	-	50,000
	<b>43,943</b>	135,918

## 4. DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Murabaha receivables	311,696	303,124
Less: deferred profits	(3,232)	(2,081)
Less: provision (note 21 (h))	(6,614)	-
	<b>301,850</b>	301,043
Due from financial institutions	84,985	188,465
Due from non-financial institutions	223,479	112,578
Provision (note 21 (h))	(6,614)	-
	<b>301,850</b>	301,043

Due from financial and non-financial institutions represents Murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2010 was equivalent to an average rate of 4.3% per annum (2009: 2.7% per annum).

## 5. INVESTMENT SECURITIES

	2010	2009
Carried at fair value through statement of income (note 5.1)	96,128	198,109
Available for sale investments at fair value:		
Quoted (note 5.2)	10,196	27,734
Unquoted (note 5.2)	16,089	22,156
	<b>122,413</b>	247,999

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 5. INVESTMENT SECURITIES (continued)

5.1 Investments carried at fair value through statement of income comprise:

	31 December 2010					Total
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	
<b>Financial services</b>	-	-	-	-	337	337
<b>Industrial</b>	-	9,234	-	-	80	9,314
<b>Real estate and construction</b>	-	28,585	-	-	5,192	33,777
<b>Technology</b>	-	-	19,237	-	-	19,237
<b>Managed funds</b>	27,394	-	-	-	6,069	33,463
<b>Total</b>	27,394	37,819	19,237	-	11,678	96,128

	31 December 2009					Total
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	
Agri-business	-	-	-	3,275	-	3,275
Financial services	-	10,007	-	-	280	10,287
Industrial	-	20,009	-	-	-	20,009
Oil and gas	-	12,000	-	-	-	12,000
Media	-	9,013	-	-	-	9,013
Real estate and construction	-	52,493	-	-	6,181	58,674
Technology	-	-	56,812	-	-	56,812
Managed funds	24,369	-	-	-	3,670	28,039
<b>Total</b>	24,369	103,522	56,812	3,275	10,131	198,109

5.2 Available for sale investments comprise:

	31 December 2010			Total
	Other Middle East	Asia Pacific	Europe	
<b>Quoted</b>				
<b>Real estate and construction</b>	10,196	-	-	10,196
<b>Unquoted</b>				
<b>Financial services</b>	1,095	5,990	-	7,085
<b>Real estate and construction</b>	6,400	-	-	6,400
<b>Oil and energy</b>	-	-	1,212	1,212
<b>Technology</b>	-	1,392	-	1,392
	7,495	7,382	1,212	16,089
<b>Total</b>	17,691	7,382	1,212	26,285

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 5. INVESTMENT SECURITIES (continued)

5.2 Available for sale investments comprise: (continued)

	31 December 2009			
	Other Middle East	Asia Pacific	Europe	Total
Quoted				
Financial Services	11,783	-	-	11,783
Real estate and construction	15,951	-	-	15,951
	27,734	-	-	27,734
Unquoted				
Financial services	7,261	96	-	7,357
Government	2,000	-	-	2,000
Real estate and construction	6,400	-	-	6,400
Oil and energy	1,157	-	3,669	4,826
Technology	-	1,573	-	1,573
	16,818	1,669	3,669	22,156
Total	44,552	1,669	3,669	49,890

### 6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2010	2009
Associates:		
Dawood Islamic Bank Limited	19,006	21,804
t'azur B.S.C. (c)	10,029	10,800
BFC Group Holdings Ltd.	96,810	89,458
	125,845	122,062
Less: impairment on associates	(21,100)	-
Total of associates	104,745	122,062
Joint venture:		
Victron Inc.	-	29,286
Total of associates and joint ventures	104,745	151,348

The Bank has a 37.74% (2009: 37.74%) interest in Dawood Islamic Bank Limited, an unlisted Islamic commercial bank in Pakistan.

The Bank has a 25.86% (2009: 25.86%) interest in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain.

The Bank has a 43.36% (2009: 45.28%) interest in BFC Group Holdings Ltd. ("BFC"), (previously known as "Condor Holdings Limited") a company based 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

The summarised financial information in respect of the Bank's associates and joint venture is set out below:

	2010	2009
Assets	200,792	349,176
Liabilities	(82,409)	(203,652)
<b>Net assets</b>	<b>118,383</b>	145,524
Share of the associates revenue and profit/(loss):		
Revenue	85,546	1,952
Profit/(loss) for the year	6,788	(3,662)

### 7. 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 2010 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms.

### 8. OTHER ASSETS

	2010	2009
Deal related advances	770	9,490
Dividend receivable	2,037	11,993
Fees and recoverable expenses outstanding from clients	5,397	72,514
Prepayments and advances	2,194	4,047
Receivable from sale of Investments	-	13,765
Other	3,909	4,901
	<b>14,307</b>	116,710
Provisions (note 21 (g))	(5,675)	-
	<b>8,632</b>	116,710



# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 9. ASSETS HELD FOR SALE

On 31 December 2009, the Group entered into a joint venture with a non-related party by disposing of 30% equity interest of Ull-Victron Inc. ("Ull-Victron") – a company that holds 80% equity interest in Victron Inc. ("Victron"). Victron was accordingly classified as investment in a joint venture under IAS 31.

On 24 February 2010, the Group also entered into a joint venture with a non-related party by disposing of 34.48% equity interest of SW Cayman Carry L.P. – a company that holds 75% equity interest in Sun Well Services Inc.

On 29 November 2010 and 9 December 2010, the Bank acquired an additional 34.48% stake in SW Cayman Carry L.P, and 30% stake in Ull-Victron Inc, respectively. The prices were mutually agreed between the joint venture parties. The acquisitions did not have any impact on the profit from assets held for sale for the year ended 31 December 2010 as the acquisition occurred close to 31 December 2010.

The Bank is committed to selling the assets and these are being actively marketed at a reasonable price. Additionally an active program to locate buyers has also been initiated. Accordingly the Bank has classified these assets as held for sale as per IFRS 5.

	2010		
	Total assets	Total liabilities	Non-controlling interests
Victron Inc.	70,499	33,675	9,074
Sun Well Services Inc.	50,424	18,942	6,199
	<b>120,923</b>	<b>52,617</b>	<b>15,273</b>

	2009		
	Total assets	Total liabilities	Non-controlling interests
Sun Well Services Inc.	40,622	13,556	6,622
	40,622	13,556	6,622

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 10. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2010	2,018	-	2,018
Exchange adjustment	(54)	-	(54)
Impairment	(1,964)	-	(1,964)
At 31 December 2010	-	-	-
Net book value:			
At 1 January 2010	2,018	-	2,018
At 31 December 2010	-	-	-
Cost:			
At 1 January 2009	44,586	8,530	53,116
Additions due to acquisition of subsidiary	69,569	-	69,569
Disposals due to deconsolidation of subsidiaries	(112,167)	(8,530)	(120,697)
Exchange adjustment	30	-	30
At 31 December 2009	2,018	-	2,018
Amortisation:			
At 1 January 2009	-	(663)	(663)
Amortisation charge for the year	-	(663)	(663)
Disposal due to deconsolidation	-	1,326	1,326
At 31 December 2009	-	-	-
Net book value:			
At 1 January 2009	44,586	7,867	52,453
At 31 December 2009	2,018	-	2,018

### 11. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Due to financial institutions	298,275	300,766
Due to non-financial institutions	95,705	220,657
	<b>393,980</b>	<b>521,423</b>

Included in due to financial institutions is a 3-year syndicated financing facility of US\$125 million which matured on 27 January 2011 and was fully repaid. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points.

The profit on the remaining due to financial institutions was equivalent to an average of 3.93% per annum (2009: 2.25% per annum).

The profit on due to non-financial institutions was equivalent to an average of 2.85% per annum (2009: 3.88% per annum).

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 12. SUBORDINATED MURABAHA

During 2009, the Bank obtained a US\$50 million facility from a related party which is convertible at the discretion of the related party into ordinary shares of the Bank, by December 2015, at a mutually agreed price and subject to legal and regulatory requirements. The average effective profit rate on the subordinated Murabaha is 6% (2009: 6%).

### 13. OTHER LIABILITIES

	2010	2009
Accruals and other provisions	4,852	1,204
Restructuring provision (note 21 (g))	5,036	-
Deal-related payables	8,331	10,672
Staff-related payables	4,562	4,256
Trade and other payables	4,915	8,856
	<b>27,696</b>	24,988

### 14. SHARE CAPITAL

	2010	2009
Authorised: 750,000,000 ordinary shares of US\$1 each	750,000	750,000
Issued and fully paid:		
185,819,019 (2009: 185,819,019) ordinary shares of US\$1 each, issued against cash	185,819	185,819
27,819,966 (2009: 27,819,966) ordinary shares of US\$1 each, issued in kind	27,820	27,820
1,938,994 (2009: 1,938,994) ordinary shares of US\$1 each, granted to employees	1,939	1,939
	<b>215,578</b>	215,578

	No. of shares (thousands)	Nominal Value
At 1 January 2009	183,740	183,740
Issued during the year:		
in cash	27,514	27,514
in kind	4,324	4,324
At 31 December 2009	215,578	215,578
<b>At 1 January 2010</b>	<b>215,578</b>	215,578
<b>Issued during the year</b>	-	-
<b>At 31 December 2010</b>	<b>215,578</b>	215,578

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 15. SHARE PREMIUM

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

## 16. STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. No transfer was made during the year as the Bank incurred a loss.

## 17. INVESTMENT BANKING FEES

	2010	2009
Advisory and placement fees	3,801	66,547
Arrangement and underwriting fees	4,072	7,532
Structuring and performance fees	272	67
	<b>8,145</b>	<b>74,146</b>

## 18. OTHER INVESTMENT BANKING INCOME

	2010	2009
Dividend income	1,149	12,910
Fair value loss on investment securities	(11,458)	(9,374)
Gain on sale of investment securities, net	4,874	5,440
Management fees	3,277	3,387
Other income	5,056	1,903
	<b>2,898</b>	<b>14,266</b>

## 19. NET EXPENSE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2010	2009
Income on due from financial and non-financial institutions	14,690	7,680
Expense on due to financial and non-financial institutions	(20,185)	(17,007)
	<b>(5,495)</b>	<b>(9,327)</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 20. OPERATING EXPENSES

	2010	2009
Advertising	(607)	(763)
Business development	(4,297)	(4,888)
Depreciation and amortisation	(2,480)	(2,106)
General and administrative	(4,804)	(5,081)
Legal and professional	(10,192)	(7,234)
Premises	(3,216)	(3,840)
Staff costs	(41,173)	(47,927)
Other	(2,530)	(3,374)
	<b>(69,299)</b>	<b>(75,213)</b>

## 21. FAIR VALUE MOVEMENTS, IMPAIRMENTS AND PROVISIONS

	Note	2010	2009
North America private equity portfolio	21 (a)	(55,855)	-
Fair value losses on reassessment	21 (b)	(29,902)	-
Other fair value losses	21 (c)	(32,840)	(8,966)
<b>Fair value movements on investment securities</b>		<b>(118,597)</b>	<b>(8,966)</b>
Available for sale investment	21 (d)	(11,822)	(2,900)
Investment in associates	21 (e)	(21,100)	-
Goodwill	21 (f)	(1,964)	-
Impairments		(34,886)	(2,900)
Others	21 (g)	(12,436)	(5,000)
Due from non-financial institutions	21 (h)	(6,614)	-
Provisions		(19,050)	(5,000)
<b>Total impairments and provisions</b>		<b>(53,936)</b>	<b>(7,900)</b>

- 21 (a) In 2010, the Bank decided to shift focus from North America to core regional markets and as a result the Bank is currently negotiating the disposal terms with potential buyers. Consequently, these assets have been valued at indicative third party offer prices as opposed to the past valuations where the timeline for disposal was longer in the future.
- 21 (b) The Bank's management has revised the basis for determining fair value for its real estate based investment. This investment was earlier valued applying valuation models on future cash flows basis as previously the Group's policy was to value its investments on the basis of quoted price only if there was an active market. During the current year, the fair valuation has been determined based solely on the quoted market price.
- 21 (c) Following the adverse performance and future business outlook in 2010 for various private equity investments carried at fair value through profit and loss based in the GCC, Europe and Asia Pacific regions the Group's management has recognised fair value losses of US\$32.84 million (31 December 2009: US\$8.9 million).
- 21 (d) The impairment losses on available for sale investments is primarily based on the quoted market prices.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 21. FAIR VALUE MOVEMENTS, IMPAIRMENTS AND PROVISIONS (continued)

- 21 (e) The Bank's management has significantly revised its future strategy for certain of its investments and as a result reassessed the recoverable amount of its associates and compared with its carrying amount. Resultantly, impairment losses of US\$21.1 million (31 December 2009: Nil) have been recognised.
- 21 (f) An impairment loss of US\$1.96 million (31 December 2009: Nil) has been recognised pertaining to goodwill for Unicorn Capital Menkul Degerler A.S based in Europe, as the management believes that the carrying amount is greater than the value in use and the fair value less cost to sell and on account of significantly reduced operations of the subsidiary in Europe.
- 21 (g) Others include accruals for obligations that management believe require outflow of resources and restructuring provision on account of the Board approved restructuring program to address downsizing of the Bank's resources, organization and management structure.
- 21 (h) The Bank's management has recognised a provision in respect of unsecured balances amounting to US\$6.6 million due from non-financial institutions since the balance is past due and the counter parties have not honoured the repayments. The Group has initiated the process of filing a legal case against the counter parties.

## 22. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 22. 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:

31 December 2010	Level 1	Level 2	Level 3	Total
<b>Investment securities</b>				
<b>Investment securities carried at fair value through statement of income</b>	<b>28,340</b>	<b>33,462</b>	<b>34,326</b>	<b>96,128</b>
<b>Investment securities designated as available for sale</b>				
<b>Quoted</b>	<b>10,196</b>	<b>-</b>	<b>-</b>	<b>10,196</b>
<b>Unquoted</b>	<b>-</b>	<b>13,602</b>	<b>2,487</b>	<b>16,089</b>
	<b>38,536</b>	<b>47,064</b>	<b>36,813</b>	<b>122,413</b>

31 December 2009	Level 1	Level 2	Level 3	Total
Investment securities				
Investment securities carried at fair value through statement of income	280	91,869	105,960	198,109
Investment securities designated as available for sale				
Quoted	27,734	-	-	27,734
Unquoted	-	13,226	8,930	22,156
	28,014	105,095	114,890	247,999

### 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:

	At 1 January 2010	Total losses recorded in profit or loss	Total losses recorded in equity	Purchases	Sales/ transfers	At 31 December 2010
<b>Investments carried at fair value through statement of income</b>	<b>105,960</b>	<b>(66,759)</b>	<b>-</b>	<b>5,000</b>	<b>(9,875)</b>	<b>34,326</b>
<b>Investment securities designated as available for sale - Unquoted</b>	<b>8,930</b>	<b>(3,375)</b>	<b>(181)</b>	<b>-</b>	<b>(2,887)</b>	<b>2,487</b>
<b>Total level 3 financial assets</b>	<b>114,890</b>	<b>(70,134)</b>	<b>(181)</b>	<b>5,000</b>	<b>(12,762)</b>	<b>36,813</b>

	At 1 January 2009	Total gains/ (losses) recorded in profit or loss	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2009
Investments carried at fair value through statement of income	207,099	2,334	-	14,742	(118,215)	105,960
Investment securities designated as available for sale - Unquoted	10,205	(2,900)	11	1,614	-	8,930
Total level 3 financial assets	217,304	(566)	11	16,356	(118,215)	114,890

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Gains or losses on level 3 financial instruments included in profit or loss comprise:

31 December 2010	Realised losses	Unrealised losses	Total
<b>Total losses included in profit or loss for the year</b>	<b>(1,373)</b>	<b>(68,761)</b>	<b>(70,134)</b>

31 December 2009	Realised losses	Unrealised gains	Total
Total (losses)/gains included in profit or loss for the year	(1,986)	1,420	(566)

#### Transfers between level 1, level 2 and level 3

No financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2010. However, as described in note 21 (b) the Bank's management has 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.

#### Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

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  $\pm 1\%$  and carrying values  $\pm 5\%$  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
<b>31 December 2010</b>		
<b>Investment securities</b>		
Investment securities carried at fair value through statement of income	34,326	1,690

31 December 2009		
Investment securities		
Investment securities carried at fair value through statement of income	105,960	7,847

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
<b>31 December 2010</b>		
Investment securities designated as available for sale - Unquoted	2,487	124

31 December 2009		
Investment securities designated as available for sale - Unquoted	8,930	447



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 23. ASSETS UNDER MANAGEMENT

	2010	2009
Proprietary	67,126	101,175
Clients	203,460	287,406
	<b>270,586</b>	388,581

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.

## 24. COMMITMENT, GUARANTEES AND OTHER CONTINGENCIES

	2010	2009
Investment-related	1,137	24,493
Lease commitments	3,381	5,195
Commitments	4,518	29,688
Guarantees	3,357	3,863
Total commitments and guarantees	<b>7,875</b>	33,551

### Other Contingencies:

In August 2010, the Board of Directors unanimously resolved to terminate the former Chief Executive Officer and Managing Director ("CEO/MD") from his duties due to a number of alleged irregularities observed in the operations of the Bank during 2010 and 2009. The Board engaged an independent firm to investigate and report on the alleged irregularities and to estimate the financial impact thereof. This report has been submitted to the General Prosecutor in the Kingdom of Bahrain. The Bank has initiated legal action against the former CEO/MD. In view of the results of the original investigation contained in the report submitted to the General Prosecutor, and on advice of the Bank's legal counsel, the Bank is confident that damages will be awarded to the Bank. Further investigation relating to prior periods is currently in progress.

Employment claims against the Bank have been filed by former Bank employees. Based on the advice received by the Bank from its external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsel has also confirmed that the Bank has strong grounds to successfully defend itself against the claims. Accordingly, no provision for these claims has been made in the consolidated financial statements. No further disclosures regarding contingent liabilities arising from any of the employment claims are being made by the Bank as the Directors of the Bank believe that such disclosures may be prejudicial to the position of the Bank.

## 25. RELATED PARTY TRANSACTIONS

### Compensation of senior management personnel

Senior management personnel are those that possess significant decision making and direction setting responsibilities within the Group.

	2010	2009
Short term employee benefits	7,110	13,706
Post employment benefits	595	536
Share-based payments	-	1,220
	<b>7,705</b>	15,462

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 25. RELATED PARTY TRANSACTIONS (continued)

### Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and senior management personnel of the Group, members of the Shari'ah Supervisory Board of the Group, close members of their families and entities owned or controlled by them. Pricing policies and terms of the transactions relating to these related parties are approved by management and where considered appropriate, by the Bank's Board of Directors.

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds.

	2010			2009		
	Shareholders/ Directors	Senior management	Other entities	Shareholders/ Directors	Senior management	Other entities
<b>Assets</b>						
Due from financial and non-financial institutions	-	-	<b>26,812</b>	-	-	85,304
Investment securities	-	-	<b>84,385</b>	-	-	143,399
Investments in associates and joint venture	-	-	<b>104,745</b>	-	-	151,348
Other assets	-	<b>277</b>	<b>3,861</b>	-	110	81,053
Assets held for sale	-	-	<b>120,923</b>	-	-	40,622
<b>Liabilities</b>						
Due to financial and non-financial institutions	-	-	<b>47,066</b>	-	-	47,422
Subordinated Murabaha	-	-	<b>51,249</b>	-	-	50,000
Other liabilities	<b>1,566</b>	<b>2,390</b>	<b>3,692</b>	1,040	1,032	8,242
Liabilities held for sale	-	-	<b>52,617</b>	-	-	13,556
<b>Shareholders' equity</b>						
Equity transaction costs	-	-	-	10,953	6,780	-
<b>Statement of income</b>						
Investment banking fees	-	-	<b>2,097</b>	-	-	69,647
Other investment banking income	-	-	<b>5,071</b>	-	-	12,447
Net (expense)/income from financial and non-financial institutions	-	-	<b>(3,039)</b>	-	-	188
Impairments and provisions	-	-	<b>(39,218)</b>	-	-	(5,000)
Share of profit/(loss) of associates	-	-	<b>6,788</b>	-	-	(3,662)
Victron Inc. expenses	-	-	-	-	-	(359)
Fair value movements on investment securities	-	-	<b>(66,445)</b>	-	-	12,701
Fair value loss on investment-related receivables	-	-	<b>(10,000)</b>	-	-	(10,000)
Directors' and Shari'ah board remuneration and expenses	<b>(712)</b>	-	<b>(421)</b>	(656)	-	(409)

Outstanding balances at the year-end arise in the normal course of business.

The Bank and another related party entity mutually agreed to cancel investment banking fee mandates due to the Bank amounting to USD 30 million (31 December 2009: Nil), 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.

In 2010, the Bank released a related party from its undertaking to reimburse the Bank for potential losses to be incurred on the sale of one of its quoted investments.

# Notes to the Consolidated Financial Statements

## For the year ended 31 December 2010

### 26. 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. In 2010, Risk Management infrastructure was enhanced by the establishment of 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.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities are regularly reviewed.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The information is reported to the Group Asset and Liability Committee (ALCO) and the Group Risk Executive Committee (REXCO) of the Group on a regular basis.

#### *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.

#### *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.

#### *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 risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

#### *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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 26. RISK MANAGEMENT (continued)

### *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. Risk Management reports directly to the Board of Directors and 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.

### *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.

### *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 risk 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 for review.

## 27. CREDIT RISK

### *Credit Risk Policy Framework*

In 2010, the Bank implemented a new 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 an Internal Credit Rating Model covering corporate entities, counterparties and real estate exposures.

### *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. 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 is independently analyzing the applications and is rating 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 27. CREDIT RISK (continued)

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.

	Gross maximum exposure 2010	Gross maximum exposure 2009
Balances with banks	43,928	135,891
Due from financial and non-financial institutions	301,850	301,043
Investment securities	13,485	25,661
Other assets	3,224	99,912
Total	362,487	562,507
Guarantees	3,357	3,863
Total credit risk exposure	365,844	566,370

### 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.

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 2010 was US\$ 60.9 million (2009: US\$84.9 million), relating to "due from financial and non-financial institutions".

### Geographical Exposure Distribution

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

	Banks & financial institutions 2010	Others 2010	Total 2010
Bahrain	29,981	15,046	45,027
Other Middle East	26,012	204,435	230,447
North America	28,319	3,842	32,161
Asia Pacific	43,377	4,670	48,047
Europe	10,042	120	10,162
Total	137,731	228,113	365,844

	Banks & financial institutions 2009	Others 2009	Total 2009
Bahrain	160,746	17,929	178,675
Other Middle East	89,684	111,501	201,185
North America	113,774	3,043	116,817
Asia Pacific	60,361	4,491	64,852
Europe	4,698	143	4,841
Total	429,263	137,107	566,370

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 27. CREDIT RISK (continued)

### Industry Sector Exposure

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

	Assets	Off-statement of financial position	Total 2010	Total 2009
<b>Industry Sector</b>				
Banking and finance	137,374	357	137,731	428,203
Industrial	1,406	-	1,406	5,445
Real estate and construction	120,831	-	120,831	91,468
Technology	842	3,000	3,842	3,000
In-house funds	283	-	283	1,060
Trade	86,988	-	86,988	6,015
Government	-	-	-	2,000
Individual	14,763	-	14,763	29,179
<b>Total</b>	<b>362,487</b>	<b>3,357</b>	<b>365,844</b>	566,370

### Collateral and other credit enhancements

The Group has no material usage of collateral or other credit enhancements since these are not acceptable within the Group's Islamic banking business model.

### 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 2010. Following is an analysis of credit quality by class of financial assets:

	2010				Total
	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Impairment/ provisions	
Balances with banks	43,928	-	-	-	43,928
Due from financial and non-financial institutions	301,592	258	6,614	(6,614)	301,850
Investment securities	12,390	-	3,650	(2,555)	13,485
Other assets	3,155	69	5,675	(5,675)	3,224
Guarantees	3,357	-	-	-	3,357
<b>Total</b>	<b>364,422</b>	<b>327</b>	<b>15,939</b>	<b>(14,844)</b>	<b>365,844</b>
	2009				
	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Impairment/ provisions	Total
Balances with banks	135,891	-	-	-	135,891
Due from financial and non-financial institutions	301,043	-	-	-	301,043
Investment securities	18,400	-	14,421	(7,160)	25,661
Other assets	80,707	19,205	5,000	(5,000)	99,912
Guarantees	3,863	-	-	-	3,863
<b>Total</b>	<b>539,904</b>	<b>19,205</b>	<b>19,421</b>	<b>(12,160)</b>	<b>566,370</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 27. CREDIT RISK (continued)

*Credit quality per class of financial assets (continued)*

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

	2010			Total
	Less than 120 days	Less than 365 days	More than 365 days	
Other assets	265	62	-	327

	2009			Total
	Less than 120 days	Less than 365 days	More than 365 days	
Other assets	2,036	12,237	4,932	19,205

## 28. LIQUIDITY RISK AND FUNDING MANAGEMENT

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

- The Group manages liquidity via its Group Asset and Liability Committee ("ALCO") process.
- 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 liabilities*

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

	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>At 31 December 2010</b>				
Due to financial and non-financial Institutions	353,338	40,642	-	393,980
Subordinated Murabaha	-	1,249	50,000	51,249
Other liabilities	8,697	6,006	3,232	17,935
Total financial liabilities	362,035	47,897	53,232	463,164
Total undiscounted financial liabilities	364,280	50,610	65,699	480,589

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 28. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

### Analysis of liabilities (continued)

	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2009				
Due to financial and non-financial Institutions	214,493	181,930	125,000	521,423
Subordinated Murabaha	-	-	50,000	50,000
Other liabilities	10,581	4,000	7,407	21,988
Total financial liabilities	225,074	185,930	182,407	593,411
Total undiscounted financial liabilities	226,245	194,240	202,713	623,198

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

	On demand	3 to 12 months	Over 1 year	Total
<b>2010</b>				
Commitments	1,137	1,086	2,295	4,518
Guarantees	3,357	-	-	3,357
Total	4,494	1,086	2,295	7,875
<b>2009</b>				
Commitments	13,551	12,027	4,110	29,688
Guarantees	3,863	-	-	3,863
Total	17,414	12,027	4,110	33,551

## 29. 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: due from financial and non-financial institutions, Investments in Sukuk and due to financial and non-financial institutions.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 29. MARKET RISK MANAGEMENT (continued)

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.

	2010			2009		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
<b>Assets</b>						
Due from financial and non-financial institutions	301,850	200	3,884	301,043	200	4,319
Investment in Sukuk	13,485	200	270	15,661	200	313
<b>Liabilities</b>						
Due to financial and non-financial institutions	393,980	200	(4,586)	521,423	200	(8,484)
<b>Total</b>			<b>(432)</b>			<b>(3,852)</b>

### 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.

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.

Currency	2010			2009		
	Exposure (US\$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (US\$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	(12,134)	(2,427)	-	462	92	-
Turkish Lira	8,913	-	1,783	10,290	-	2,058
Malaysian Ringgit	2,981	-	596	2,974	-	595
Euro	48	10	-	2,350	470	-
Jordanian Dinar	214	43	-	-	-	-

### 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 at 31 December 2010) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US\$ 14.419 million and US\$ 3.943 million, respectively (2009: US\$29.717 million and US\$5.134 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 29. MARKET RISK MANAGEMENT (continued)

### *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.

## 30. 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.

The Group uses the Basic Indicator Approach under Basel II for calculating the operational risk capital charge and the operational risk capital charge for 2010 was as follows:

<b>Capital charge for operational risk</b>	<b>2010</b>	2009
Gross Income	<b>17,775</b>	199,136
Average for preceding three years	<b>131,955</b>	162,596
Alpha	<b>15%</b>	15%
<b>Capital charge for operational risk</b>	<b>19,793</b>	24,389

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 31. 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 2010						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Total
<b>ASSETS</b>							
Cash and balances with banks	43,943	-	-	-	43,943	-	43,943
Due from financial and non financial institutions	67,528	98,812	87,519	30,939	284,798	17,052	301,850
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
Premises and equipment	-	-	-	-	-	7,147	7,147
Assets held for sale	-	120,923	-	-	120,923	-	120,923
<b>Total assets</b>	<b>118,504</b>	<b>232,428</b>	<b>96,753</b>	<b>78,098</b>	<b>525,783</b>	<b>201,576</b>	<b>727,359</b>
<b>LIABILITIES</b>							
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
<b>Total liabilities</b>	<b>233,408</b>	<b>182,493</b>	<b>40,642</b>	<b>11,042</b>	<b>467,585</b>	<b>57,957</b>	<b>525,542</b>
<b>Net liquidity gap</b>	<b>(114,904)</b>	<b>49,935</b>	<b>56,111</b>	<b>67,056</b>	<b>58,198</b>	<b>143,619</b>	<b>201,817</b>
<b>Net cumulative gap</b>	<b>(114,904)</b>	<b>(64,969)</b>	<b>(8,858)</b>	<b>58,198</b>	<b>58,198</b>	<b>201,817</b>	
<b>31 December 2009</b>							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Total
<b>ASSETS</b>							
Cash and balances with banks	135,918	-	-	-	135,918	-	135,918
Due from financial institutions	149,188	101,979	-	-	251,167	-	251,167
Due from non-banks	-	46,770	-	-	46,770	3,106	49,876
Investment securities	-	-	-	82,494	82,494	165,505	247,999
Investments in associates	-	-	-	-	-	151,348	151,348
Investment properties	-	-	-	-	-	29,164	29,164
Other assets	3,498	93,689	18,512	-	115,699	1,011	116,710
Premises and equipment	-	-	-	-	-	8,797	8,797
Assets held for sale	-	-	-	40,622	40,622	-	40,622
Goodwill and intangible assets	-	-	-	-	-	2,018	2,018
<b>Total assets</b>	<b>288,604</b>	<b>242,438</b>	<b>18,512</b>	<b>123,116</b>	<b>672,670</b>	<b>360,949</b>	<b>1,033,619</b>
<b>LIABILITIES</b>							
Due to financial and non-financial institutions	156,954	57,538	140,185	41,746	396,423	125,000	521,423
Subordinated Murabaha	-	-	-	-	-	50,000	50,000
Other liabilities	3,340	7,241	-	7,000	17,581	7,407	24,988
Liabilities held for sale	-	-	-	13,556	13,556	-	13,556
<b>Total liabilities</b>	<b>160,294</b>	<b>64,779</b>	<b>140,185</b>	<b>62,302</b>	<b>427,560</b>	<b>182,407</b>	<b>609,967</b>
<b>Net liquidity gap</b>	<b>128,310</b>	<b>177,659</b>	<b>(121,673)</b>	<b>60,814</b>	<b>245,110</b>	<b>178,542</b>	<b>423,652</b>
<b>Net cumulative gap</b>	<b>128,310</b>	<b>305,969</b>	<b>184,296</b>	<b>245,110</b>	<b>245,110</b>	<b>423,652</b>	

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 32. 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.

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:

<b>Capital Markets and Treasury</b>	<p>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.</p> <p>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.</p>
<b>Private Equity</b>	<p>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.</p>
<b>Corporate Finance</b>	<p>The Group's corporate finance business provides clients with corporate finance advisory services for capital planning and funding strategy, financial restructuring and mergers and acquisitions. The services include balance sheet structuring, valuation, financing alternatives and strategic business advisory services.</p>
<b>Asset Management</b>	<p>The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.</p>
<b>Strategic Mergers and Acquisitions ("SM&amp;A")</b>	<p>The Group's SM&amp;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&amp;A also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.</p>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 32. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2010							
	Capital Markets and Treasury	Private Equity	Corporate Finance	Asset Management	SM&A	Other	Elimination	Total
Investment banking income/(loss)	7,862	7,131	272	415	372	(5,009)	-	11,043
Inter-segment income	1,042	634	77	-	-	624	(2,377)	-
Net expense from financial and non-financial institutions	(1,067)	(2,633)	(417)	(524)	(842)	(12)	-	(5,495)
Share of profit of associates and joint ventures	-	4,122	-	-	2,666	-	-	6,788
<b>Total income/(loss)</b>	<b>7,837</b>	<b>9,254</b>	<b>(68)</b>	<b>(109)</b>	<b>2,196</b>	<b>(4,397)</b>	<b>(2,377)</b>	<b>12,336</b>
<b>Total operating expenses</b>	<b>(4,832)</b>	<b>(1,941)</b>	<b>(329)</b>	<b>(2,394)</b>	<b>(4,629)</b>	<b>(55,174)</b>	<b>-</b>	<b>(69,299)</b>
Impairments and provisions	(6,614)	(7,081)	-	(1,964)	(29,408)	(8,869)	-	(53,936)
Fair value movements on investment securities and assets held for sale	(10,000)	(90,857)	(9,857)	(806)	(7,077)	-	-	(118,597)
<b>Net loss</b>	<b>(13,609)</b>	<b>(90,625)</b>	<b>(10,254)</b>	<b>(5,273)</b>	<b>(38,918)</b>	<b>(68,440)</b>	<b>(2,377)</b>	<b>(229,496)</b>
Investment in associates	-	-	-	-	104,745	-	-	104,745
Capital expenditure	-	-	-	-	-	299	-	299
Segment assets	313,141	178,772	9,234	5,855	123,460	96,897	-	727,359
Segment liabilities	127,465	240,709	29,719	37,456	60,233	29,960	-	525,542

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 32. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2009							
	Capital Markets and Treasury	Private Equity	Corporate Finance	Asset Management	SM&A	Other	Elimination	Total
Investment banking income/(loss)	68,035	8,721	434	5,145	13,374	(7,297)	-	88,412
Net income from non-banking activities	-	8,233	-	-	12,823	-	-	21,056
Inter-segment income	-	1,757	-	472	-	444	(2,673)	-
Net income/(expense) from financial and non-financial institutions	3,276	(6,851)	(700)	(554)	(4,623)	125	-	(9,327)
Share of loss of associates	-	-	-	-	(3,662)	-	-	(3,662)
Total income/(loss)	71,311	11,860	(266)	5,063	17,912	(6,728)	(2,673)	96,479
Income tax expense	-	(3,099)	-	5	(323)	6	-	(3,411)
Other operating expenses	(1,851)	(6,174)	(1,468)	(5,961)	(5,164)	(54,595)	-	(75,213)
Total operating expenses	(1,851)	(9,273)	(1,468)	(5,956)	(5,487)	(54,589)	-	(78,624)
Impairments	(2,900)	-	-	-	-	(5,000)	-	(7,900)
Fair value movements on investment securities	(10,163)	3,783	(4,500)	939	2,983	(2,008)	-	(8,966)
Profit from assets held for sale	-	1,246	-	-	-	-	-	1,246
Net Profit/(loss)	56,397	7,616	(6,234)	46	15,408	(68,325)	(2,673)	2,235
Investments in associates and joint venture	-	29,285	-	-	122,063	-	-	151,348
Capital expenditure	-	5	-	14	-	8,552	-	8,571
Segment assets	478,572	219,333	19,154	39,679	147,825	129,056	-	1,033,619
Segment liabilities	171,248	202,042	19,259	15,242	127,189	74,987	-	609,967

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

## 32. 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 expenditure by geographical segments.

31 December 2010	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
<b>Total (loss)/income</b>	<b>(12,775)</b>	<b>16,774</b>	<b>5,633</b>	<b>(538)</b>	<b>3,242</b>	<b>12,336</b>
<b>Net loss</b>	<b>(74,243)</b>	<b>(87,261)</b>	<b>(52,485)</b>	<b>(9,789)</b>	<b>(5,718)</b>	<b>(229,496)</b>
<b>Non-current assets</b>	<b>23,406</b>	<b>657</b>	<b>19</b>	<b>709</b>	<b>62</b>	<b>24,853</b>

31 December 2009	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total (loss)/income	(24,617)	106,212	7,416	1,400	6,068	96,479
Net income/(loss)	1,444	(12,281)	13,196	(1,121)	997	2,235
Non-current assets	36,310	809	38	716	2,106	39,979

## 33. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments as of the consolidated statement of financial position date, other than those stated at amortised cost, approximates to their carrying values.

## 34. 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.

## 35. SOCIAL RESPONSIBILITIES

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

## 36. 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 2010 was nil (2009: US\$0.05 per share).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(Amounts in United States Dollars thousands)

### 37. CAPITAL

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

	2010	2009
Regulatory capital base:		
Tier 1 capital	105,294	295,363
Tier 2 capital	17,364	-
<b>Total regulatory capital</b>	<b>122,658</b>	295,363
<b>Risk-weighted assets</b>	<b>903,114</b>	1,281,160
Tier 1 capital adequacy ratio	11.66%	23.05%
Total capital adequacy ratio	13.58%	23.05%

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; non-controlling interests less accrued dividends and goodwill. Certain adjustments are made to IFRS based results and reserves, as prescribed by the Central Bank of Bahrain. Tier 2 capital comprises 45% of fair value reserves and subordinated Murabaha.