Seera Investment Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEERA INVESTMENT BANK B.S.C. (c)

We have audited the accompanying consolidated statement of financial position of Seera Investment Bank B.S.C. ["the Bank"] and its subsidiaries ["the Group"] as of 31 December 2010, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank 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 Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence and has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

2 March 2011
Manama, Kingdom of Bahrain

Seera Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	***2010*** ***US$ '000***	*2009* *US$ '000*
ASSETS			
Cash and balances with banks	4	**18,486**	4,363
Due from banks and financial institutions	5	**34,286**	37,940
Non-trading investments	6	**21,494**	27,624
Investments in leases	7	**93,390**	93,390
Net assets of disposal group classified as held for sale	8	**14,953**	115,846
Investment property	9	**10,476**	11,454
Goodwill and intangible assets	10	**165,206**	-
Other assets	11	**49,844**	6,128
Property and equipment	12	**9,590**	10,044
TOTAL ASSETS		**417,725**	306,789
LIABILITIES AND EQUITY			
Due to banks and financial institutions	3	**101,338**	25,874
Other liabilities	13	**15,455**	4,903
TOTAL LIABILITIES		**116,793**	30,777
EQUITY			
Share capital	14	**291,286**	291,286
Reserves	14	**4,565**	2,420
Accumulated losses		**(27,396)**	(32,804)
Equity attributable to shareholders of the parent		**268,455**	260,902
Non-controlling interest		**32,477**	15,110
TOTAL EQUITY		**300,932**	276,012
TOTAL LIABILITIES AND EQUITY		**417,725**	306,789

Asaad Al Banwan
Chairman

Khalid Al Nasser
Board Member

Abdulla Janahi
Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

	Notes	**2010 US$ '000**	2009 US$ '000
Rental income from investments in leases		**34,313**	36,406
Rental expense on investments in leases		**(26,409)**	(26,005)
Management fees relating to leases		**(1,382)**	(1,511)
Net income from investments in leases		**6,522**	8,890
Profit on amounts due from banks and financial institutions		**205**	752
Profit on amounts due to banks and financial institutions		**(219)**	(1,225)
Net cost on due to banks and financial institutions		**(14)**	(473)
Net income from non-banking activities	15	**7,153**	-
Income / (loss) from non-trading investments	16	**2,209**	(2,092)
Fee and other incomes		**674**	630
TOTAL INCOME		**16,544**	6,955
Expenses			
Staff expenses		**5,981**	6,057
General and administration expenses	17	**3,020**	3,222
Foreign exchange (gain) / loss		**(392)**	68
Depreciation	12	**1,661**	1,697
TOTAL EXPENSES		**10,270**	11,044
NET INCOME / (LOSS) FOR THE YEAR BEFORE UNREALISED LOSS AND PROVISIONS		**6,274**	(4,089)
Unrealised loss on investment property	9	**(978)**	(6,006)
Write back / (provisions) for investments	18	**1,950**	(24,983)
NET PROFIT / (LOSS) FOR THE YEAR		**7,246**	(35,078)
Attributable to:			
Shareholders of the parent		**5,545**	(36,117)
Non-controlling interest		**1,701**	1,039
		7,246	(35,078)

The attached explanatory notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	**2010 US$ '000**	2009 US$ '000
OPERATING ACTIVITIES			
Net profit / (loss) for the year		**7,246**	(35,078)
Adjustments for:			
Provision for employees' end of service benefits	13	**332**	244
Depreciation	12	**1,661**	1,697
Gain on disposal of property and equipment		**(78)**	-
Amortisation of intangible assets	15	**5,088**	-
(Write back of provision) / provisions for investments		**(1,950)**	24,983
(Gain) / loss on disposal of non-trading investments	16	**(2,209)**	2,713
Unrealised loss on investment property	9	**978**	6,006
		11,068	565
Changes in operating assets and liabilities:			
Other assets		**(5,131)**	(2,827)
Due to banks and financial institutions		**(15,794)**	(33,718)
Other liabilities		**(2,595)**	(2,149)
Net cash used in operating activities		**(12,452)**	(38,129)
INVESTING ACTIVITIES			
Proceeds from sale of non-trading investments		**9,415**	15,220
Proceeds from sale of property and equipment		**97**	-
Purchase of property and equipment	12	**(110)**	(205)
Net cash from investing activities		**9,402**	15,015
FINANCING ACTIVITY			
Non-controlling interest		**(450)**	(923)
Net cash used in financing activities		**(450)**	(923)
DECREASE IN CASH AND CASH EQUIVALENTS		**(3,500)**	(24,037)
Cash and cash equivalents at beginning of the year		**42,303**	66,340
Cash and cash equivalents at acquisition of a subsidiary	3	**13,969**	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	**52,772**	42,303

The attached explanatory notes 1 to 27 form part of these consolidated financial statements

Seera Investment Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Equity attributable to shareholders of the parent							
	Share capital US$ '000	*Statutory reserve US$ '000*	*Investment fair value reserve US$ '000*	*Foreign currency translation reserve US$ '000*	*Accumulated losses US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total equity US$ '000*
Balance at 1 January 2010	291,286	2,002	418	-	(32,804)	260,902	15,110	276,012
Net income for the year	-	-	-	-	5,545	5,545	1,701	7,246
Dividends paid by subsidiaries	-	-	-	-	-	-	(450)	(450)
Acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	15,824	15,824
Exchange differences on translation of foreign operations	-	-	-	1,657	-	1,657	292	1,949
Transferred to statutory reserve	-	555	-	-	(555)	-	-	-
Unrealised losses on re-measurement to fair value	-	-	(67)	-	418	351	-	351
Balance at 31 December 2010	**291,286**	**2,557**	**351**	**1,657**	**(27,396)**	**268,455**	**32,477**	**300,932**
Balance at 1 January 2009	291,286	2,002	6,424	-	(2,693)	297,019	14,994	312,013
Net loss for the year	-	-	-	-	(36,117)	(36,117)	1,039	(35,078)
Dividends paid by subsidiaries	-	-	-	-	-	-	(923)	(923)
Unrealised losses on re-measurement to fair value	-	-	(6,006)	-	6,006	-	-	-
Balance at 31 December 2009	291,286	2,002	418	-	(32,804)	260,902	15,110	276,012

1 INCORPORATION AND ACTIVITIES

Seera Investment Bank B.S.C. (c) ["the Bank"] was incorporated on 5th of August 2006, under commercial registration number 62003 as a Bahrain Joint Stock Company (closed). The Bank's registered office is Building 2431, Road 2831, Block 428, Seef, Kingdom of Bahrain.

The Bank operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain ["the CBB"]. The Bank and its subsidiaries ["the Group"] aim to provide a full range of investment banking products and services that are compliant with Shari'a principles.

The comparative figures include an investment classified as "held for sale" which the Group has consolidated under FAS 23 from I April 2010. The comparative amounts for the consolidated statements of income, cash flows and changes in equity and related notes are not entirely comparable to that extent.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 2 March 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with the Financial Accounting Standards [“FAS”] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"], the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

2.2 Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the re-measurement at fair value of investment property and certain non-trading investments.

The consolidated financial statements have been presented in United States Dollar ["US$"], being the functional currency of the Group. All values are rounded to the nearest thousand ["US$ '000"] except when indicated otherwise.

Following is the summary of significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous year, except as noted below:

2.2.1 New financial accounting standards

Following are the new financial accounting standards that have been adopted by the Group during the year. Adoption of these new standards did not have any material effect on the consolidated financial statements of the Group.

Financial Accounting Standard No. 23 - Consolidation

During the year, the Group has adopted FAS 23 issued by the AAOIFI which 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. The adoption of this standard is effective for financial periods commencing on or after 1 January 2010.

Financial Accounting Standard No. 24 - Associates

During the year, the Group has adopted FAS 24 issued by the AAOIFI which sets out the accounting principles for recognising, measuring, presenting and disclosing the investments in associate. The adoption of this standard is effective for financial periods commencing on or after 1 January 2010.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The financial information of the subsidiaries (including special purpose entities that the Group controls) is prepared using consistent accounting policies, with the exception of the carrying value of investments in leases which are fair valued by the subsidiaries but carried at cost less impairment at the consolidated level. Appropriate adjustments have been processed as required to ensure consistency with the Group's accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All intra-group balances, transactions, income and expenses have been eliminated in full.

Non-controlling interest represents the portion of net income and net assets not held, 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 parent shareholders' equity.

The following are the Group's significant subsidiaries as at 31 December 2010:

Name of subsidiary	*Country of incorporation*	*Equity interest*
Falak Aviation Fund Company	Kingdom of Bahrain	100%
Falak Aviation Fund B.S.C. (c)	Kingdom of Bahrain	86%
Falak Investments Limited	Bahamas	86%
Falak Lease One Limited	Bahamas	86%
Falak Lease Two Limited	Bahamas	86%
Falak Lease Three Limited	Bahamas	86%
Falak Lease Four Limited	Bahamas	86%
Falak Lease Five Limited *	Bahamas	86%
Falak Lease Six Limited *	Bahamas	86%
Falak Lease Seven Limited	Bahamas	86%
Falak Lease Eight Limited	Bahamas	86%
Falak Lease Nine Limited	Bahamas	86%
Falak Lease Ten Limited	Bahamas	86%
Falak Lease Eleven Limited	Bahamas	86%
BWA Cayman Limited **	Cayman	98%
BWA Jersey Limited **	Jersey	85%
BWA Lux S.a.r.l Limited **	Luxembourg	85%
BWA UK Acquisition Company Limited	UK	85%
MCAW Group Limited **	United Kingdom	85%

* The underlying assets in these entities were disposed off in October 2008.

** These subsidiaries are being consolidated from 1 April 2010.

2.4 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and balances with banks and murabaha balances with original maturities of less than ninety days.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables. Commodity murabaha receivables are stated net of deferred profits and provision for impairment, if any. Wakala receivables are stated at cost less provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Bank 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.

2.6 Non-trading investments

These are classified as available for sale.

Initial recognition

All investments are initially recognised at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Re-measurement to fair value

Subsequent to initial recognition, investments that are classified as “available for sale” are re-measured at fair value. The fair value changes of investments available for sale are reported in consolidated statement of changes in equity until such time as the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the consolidated statement of income.

The losses arising from impairment of such investments are recognised in the consolidated statement of income in "impairment losses" and removed from the investment fair value reserve. Impairment losses recognised in the consolidated statement of income for an equity instrument classified as available for sale are not reversed through the consolidated statement of income.

2.7 General Provision

The Group maintains a general provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to its investments. The amount reflects estimated losses affecting these investments attributable to events that have already occurred at the date of the consolidated financial statements, and not estimated losses attributable to future events. These provisions are reversed through consolidated statement of income, if the balance exceeds the required level.

2.8 Investments in leases

Investments in leases are initially recognised at cost, being the fair value of consideration paid, and subsequently carried at cost less provision for impairment in value. Initial direct costs incurred in negotiating aviation lease arrangements are added to the carrying amount of the investment.

2.9 Net assets of disposal group classified as held for sale

Net assets of disposal group classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Net assets of disposal group are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of reclassification.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investment property

Investment property is held to earn rentals or for capital appreciation. It is initially recorded at cost being the fair value of the consideration, including acquisition charges associated with the property.

Subsequent to initial recognition, investment property is remeasured at fair value and changes in fair value are recognised in the consolidated statement of income as unrealised gain / loss on revaluation of investment property. The fair value of the investment property is determined based on valuations made by independent valuers.

In accordance with AAOIFI unrealised gains are appropriated to an "investment fair value reserve" in equity and are transferred to retained earnings only when realised.

2.11 Goodwill and intangible assets

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.12 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on straight line method at rates intended to write-off the cost of the assets over their estimated useful life.

Freehold land is not depreciated. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20
Others	3-5

Expenditure for maintenance and repairs is expensed as incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation for property and equipment is reviewed, and adjusted if appropriate, at each financial year end.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Due to banks and financial institutions

Amounts due to banks and financial institutions are initially recognised at cost, being the fair value of consideration received plus accrued profit less amount repaid.

2.15 Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are recognised in equity and not in consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.16 Recognition of income and expenses

Rental income and rental expense on investments in leases
Rental income and rental expense on investments in leases are recognised on the basis of contractual amounts receivable / payable on a time apportioned basis.

Revenue on sale of goods
Revenue from the sale of goods is recognised when the goods are physically delivered to the customer and is stated net of taxes and trade discounts.

Profit on amounts due from banks and financial institutions
Profit on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Dividends
Dividend revenue is recognised when the Group's right to receive the dividend is established.

Fee income
Fee income is recognised when earned.

Taxation
There is no taxation in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with fiscal regulations of the respective countries in which the subsidiaries operate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, due from banks and financial institutions, non-trading investments and receivables.

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 Bank's continuing involvement in the asset.

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

2.18 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant year. All resulting exchange differences are taken directly to equity.

On disposal of a foreign operation, the component of equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2.19 Significant accounting judgements and estimates

The preparation of the consolidation financial statements requires management to exercise judgement and make estimates that affect the amounts reported in the consolidated financial statements. The most significant use of judgement and estimates are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Significant accounting judgements and estimate (continued)

Allowances for leases
The Group reviews its individually significant investment in leases at each consolidated statement of financial position date to assess whether an allowance should be made for recoverability. In determining this allowance, judgement by management is required in the estimation of the amount and timings of future cash flows and the fair value of the underlying assets. Such estimates are based on assumptions of a number of factors and actual results may differ, resulting in future changes to the allowance.

Fair value of unquoted investments
Where the fair value of the Group's investment portfolio cannot be derived from an active market, they are determined using a variety of valuation techniques. These techniques rely on market observable data where possible. Judgement by management is required to establish fair values through the use of appropriate valuation models. The judgements include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Fair value of investment property
The fair value of investment property is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and location.

2.20 Impairment
The Group assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of 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 loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

The Group assesses at each reporting date, or more frequently if events or changes in circumstances indicate so, whether the carrying value of investments in leases may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of each asset in the portfolio individually. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and any impairment loss is recognised in the consolidated statement of income.

2.21 Employees' end of service benefits
The Bank provides end of service benefits to its employees in accordance with the requirement of Bahrain Labour Law. The entitlement to these benefits is based upon the employees’ final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its employees who are Bahraini nationals, the Bank makes contributions to the General Organisation for Social Insurance calculated as a percentage of the employees’ salaries in accordance with the relevant regulation. The Group’s obligations are limited to these contributions, which are expensed when due.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Determination of fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the consolidated statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows. For financial contracts, future cash flows are determined by the Group at current profit rates for financing contracts with similar terms and risk characteristics.

2.23 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

2.24 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if and only if there is a legally enforceable or religious right (as determined by Shari'a) to set off the recognised amounts and the Group intends to settle on a net basis.

2.25 Zakah

In the absence of appointment of the Bank to pay zakah on behalf of Shareholders, the responsibility of payment of zakah is on individual shareholders of the Group.

3 BUSINESS COMBINATION

On 29 September 2008, the Group acquired 87% of McCaw Group Limited via BWA Cayman Ltd. This acquisition was classified under IFRS 5 as "subsidiary held for sale". Effective 1 April 2010, the Group revised its plan to sell this investment, and in line with the requirements of accounting standards has consolidated all the companies under the McCaw Group Limited under FAS 23. As a result, the net income from non-banking activities (refer note 15) is also consolidated for the period from 1 April 2010 to 31 December 2010.

The fair value of identifiable assets and liabilities as at the date of acquisition were:

	Fair value recognised on acquisition US$ '000
Assets	
Cash and balances with banks	13,969
Intangible assets	14,077
Other assets	38,583
Property and equipment	1,116
	67,745
Liabilities	
Due to banks and financial institutions	93,749
Other liabilities	14,762
	108,511
Total identifiable net liabilities at fair value	**(40,766)**
Non-controlling interests	(15,824)
Goodwill arising on acquisition	166,217
Purchase consideration transferred	**109,627**

4 CASH AND BALANCES WITH BANKS

	***2010* US$ '000**	*2009 US$ '000*
Balances with banks	**18,484**	4,362
Cash in hand	**2**	1
	18,486	4,363

5 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2010 US$ '000	2009 US$ '000
Commodity murabaha	**11,503**	34,750
Deferred income	**(1)**	(10)
	11,502	34,740
Wakala receivables	**22,784**	3,000
Mudaraba receivables	**-**	200
	22,784	3,200
	34,286	37,940

6 NON-TRADING INVESTMENTS

	2010 US$ '000	2009 US$ '000
Available for sale investments		
Quoted equity investments (note 6.1)	**1,906**	8,761
Unquoted equity investments (note 6.2)	**21,121**	22,346
General provision	**(1,533)**	(3,483)
Unquoted equity investments	**19,588**	18,863
	21,494	27,624

6.1 This represents a portfolio of investments quoted on the Kuwait Stock Exchange and managed by National Investment Company K.S.C. (a major shareholder of the Bank) ["NIC"].

6.2 The fair value of these investments cannot be reliably estimated due to uncertainty of cash flows. The balance is net of general provision amounting to US$ 1,533 thousand (31 December 2009: US$ 3,483 thousand).

7 INVESTMENTS IN LEASES

	2010 US$ '000	2009 US$ '000
Falak Lease One Limited	**12,305**	12,305
Falak Lease Two Limited	**12,306**	12,306
Falak Lease Three Limited	**13,375**	13,375
Falak Lease Four Limited	**15,264**	15,264
Falak Lease Seven Limited	**17,309**	17,309
Falak Lease Eight Limited	**12,500**	12,500
Falak Lease Nine Limited	**3,130**	3,130
Falak Lease Ten Limited	**2,884**	2,884
Falak Lease Eleven Limited	**12,317**	12,317
	101,390	101,390
General provision	**(8,000)**	(8,000)
	93,390	93,390

7 INVESTMENTS IN LEASES (continued)

The Bank, through its Falak subsidiaries, has entered into arrangements for leasing aircrafts. Future minimum rentals receivable and payables are as follows:

	2010		
	Receivable US$ '000	***Payables US$ '000***	***Net US$ '000***
During 2011	**36,012**	**27,211**	**8,801**
During 2012-2013	**62,999**	**47,179**	**15,820**
During 2014-2015	**12,399**	**9,280**	**3,119**
	111,410	**83,670**	**27,740**

	2009		
	Receivables US$ '000	*Payables US$ '000*	*Net US$ '000*
During 2010	35,277	26,510	8,767
During 2011-2013	102,075	74,534	27,541
During 2014-2015	13,342	9,408	3,934
	150,694	110,452	40,242

In consideration of the above, the Group has acquired head leases, which give it the right to lease the aircraft to various airlines. In addition, the Group also has an option to acquire the underlying aircraft based on agreed formulae.

8 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The disposal group is a company incorporated in Cayman Islands which has a stake of 92.02% in a Danish operator that is a global leader in the provision of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. As at 31 December 2010, the Group has retained a 21.5% stake in this Danish company and the Management remains committed to sell the investment and is actively marketing at a price that is reasonable. As at 31 December 2010, the total assets and liabilities amounted to US$ 46,260 thousand and US$ 29,789 thousand respectively (31 December 2009: US$ 54,128 thousand and US$ 35,438 thousand respectively).

As at 31 December 2009, the disposal group also included a company incorporated in Cayman Islands which has a stake of 87.13% of a UK based company selling water treatment products. This disposal group is being consolidated as a subsidiary from 1 April 2010 (Note 3).

9 INVESTMENT PROPERTY

	2010 US$ '000	*2009 US$ '000*
Opening carrying value	**11,454**	17,460
Unrealised loss on investment property	**(978)**	(6,006)
Closing carrying value	**10,476**	11,454

The investment property represents land in the Kingdom of Bahrain. It is stated at fair value, determined based on valuations performed by three independent professional valuers as of 31 December 2010 and 31 December 2009. These valuers are industry specialist in valuing these type of investment properties.

10 GOODWILL AND INTANGIBLE ASSETS

	2010 US$ '000	*2009 US$ '000*
Goodwill *	**156,217**	-
Intangible assets (note 3)	**14,077**	-
Amortised during the year (note 15)	**(5,088)**	-
	8,989	-
	165,206	-

* Goodwill is net of impairment of US$ 10 million.

11 OTHER ASSETS

	2010 US$ '000	*2009 US$ '000*
Trade receivables	**20,738**	-
Deferred tax asset	**9,478**	-
Inventories	**11,848**	-
Other assets	**7,780**	6,128
	49,844	6,128

12 PROPERTY AND EQUIPMENT

	Freehold land US$ '000	***Building US$ '000***	***Others US$ '000***	***Total US$ '000***
Cost				
At 1 January 2010	**3,163**	**4,079**	**5,524**	**12,766**
Acquired through subsidiary	**1,116**	**-**	**-**	**1,116**
Additions	**37**	**-**	**73**	**110**
Disposals	**-**	**-**	**(254)**	**(254)**
At 31 December 2010	**4,316**	**4,079**	**5,343**	**13,738**
Accumulated depreciation				
At 1 January 2010	**-**	**628**	**2,094**	**2,722**
Charge for the year	**-**	**204**	**1,457**	**1,661**
Disposals	**-**	**-**	**(235)**	**(235)**
At 31 December 2010	**-**	**832**	**3,316**	**4,148**
Net book value				
At 31 December 2010	**4,316**	**3,247**	**2,027**	**9,590**
At 31 December 2009	3,163	3,451	3,430	10,044

13 OTHER LIABILITIES

	2010 ***US$ '000***	*2009* *US$ '000*
Trade payables	**8,167**	-
Accrued expenses	**3,637**	661
Unearned rental income	**912**	1,118
Provision for employees end of service benefits	**843**	737
Legal and professional fees payable related to investment in leases	**676**	263
Rental expenses payable	**670**	853
Other liabilities	**550**	1,271
	15,455	4,903

The movement in provision for employees end of service benefits during the year is as follows:

	2010 ***US$ '000***	*2009* *US$ '000*
Opening balance	**737**	499
Charge for the year	**332**	244
Utilised and paid during the year	**(226)**	(6)
Closing balance	**843**	737

14 EQUITY

14.1 Share capital

	2010 ***US$ '000***	*2009* *US$ '000*
Authorised: 2,500,000,000 ordinary shares of US$ 1 each	**2,500,000**	2,500,000
Issued and fully paid up: 291,286,000 ordinary shares of US$ 1 each	**291,286**	291,286

14.2 Statutory reserve

In accordance with the Bahrain Commercial Companies Law ("BCCL") and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations.

14.3 Investment fair value reserve

This represents the unrealised gain on revaluation of investment property as required by AAOIFI. This reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition.

14.4 Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain (loss) arising from translating the non- monetory assets and liabilities carried at fair value.

15 NET INCOME FROM NON-BANKING ACTIVITIES

	2010
	US$ '000
Revenue from sale of goods	**100,717**
Cost of goods sold	**(64,744)**
Gross Profit	**35,973**
Selling and distribution expenses	**(4,564)**
Administrative expenses	**(11,398)**
Amortisation of intangible assets	**(5,088)**
Finance cost	**(5,165)**
Taxation	**(2,605)**
Total expenses from non-banking activities	**(28,820)**
Net income from non-banking activities	**7,153**

16 INCOME / (LOSS) FROM NON-TRADING INVESTMENTS

	2010	*2009*
	US$ '000	*US$ '000*
Gain / (loss) on disposal of equity investments	**2,209**	(1,524)
Income from sukuk	**-**	290
Dividend income	**-**	331
Loss on disposal of sukuk	**-**	(1,189)
	2,209	(2,092)

17 GENERAL AND ADMINISTRATION EXPENSES

	2010	*2009*
	US$ '000	*US$ '000*
Legal and professional	**1,228**	1,527
Rent and maintenance	**403**	332
Communication charges	**260**	305
Board of Directors and Committees meetings' expenses and attendance allowances	**120**	115
Marketing and advertisement	**85**	182
Travel expenses	**41**	115
Others	**883**	646
	3,020	3,222

18 GENERAL PROVISION ON INVESTMENTS

	2010	*2009*
	US$ '000	*US$ '000*
Non-trading investments	**-**	6,983
Investments in leases	**-**	8,000
Other investments	**-**	10,000
Write back of provision	**(1,950)**	-
	(1,950)	24,983

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2010	*2009*
	US$ '000	*US$ '000*
Cash and balances with banks	**18,486**	4,363
Due from banks and financial institutions (original maturity within 90 days)	**34,286**	37,940
	52,772	42,303

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing financial assets 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.

The Group's quoted equity investments qualify for disclosure under Level 1 and their carrying value as at 31 December 2010 is US$ 1,906 thousand (31 December 2009: US$ 8,761 thousand). The Group does not have financial instruments qualifying for Level 2 or Level 3. The other available for sale investments amounting to US$ 19,588 thousand (31 December 2009: US$ 18,863 thousand) are carried at cost less impairment, if any.

21 CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB.

The primary objectives of the Bank's capital management are to ensure that the Group complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises principally of share capital, statutory reserve, accumulated losses and non controlling interest. The other component of regulatory capital, Tier 2 Capital, consists of investment fair value reserves. Certain adjustments are made to these balances as prescribed by the CBB. Risk-weighted assets are calculated in accordance with the prudential rules laid down by the CBB.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group’s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the CBB.

The primary objectives of the Bank’s capital management are to ensure that the Group complies with regulatory capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders’ value. During the past year, the Group has complied in full with all its externally imposed capital requirements.

21 CAPITAL MANAGEMENT

The Bank 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 Bank 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.

Regulatory capital

	Note	***2010 US$'000***	*2009 US$'000*
Tier 1 capital	21.1	**218,719**	217,522
Tier 2 capital		**-**	-
Total capital base (a)		**218,719**	217,522
Risk weighted assets (b)	21.2	**358,150**	383,446
Capital adequacy (a/b x 100)		**61.07%**	56.73%
Minimum requirement		**12.0%**	12.0%

21.1 Tier 1 Capital

	2010 US$'000	*2009 US$'000*
Share capital	**291,286**	291,286
Statutory reserve	**2,557**	2,002
Other reserve	**1,657**	-
Accumulated losses	**(27,396)**	(32,804)
Non-controlling interest	**15,293**	15,110
Core Tier 1 Capital	**283,397**	275,594
Deductions	**(32,418)**	(29,130)
Tier 1 Capital	**250,979**	246,464
Negative balance of Tier 2	**(32,260)**	(28,942)
Tier 1 Capital net of negative Tier 2 Capital	**218,719**	217,522

21.2 Tier 2 Capital

	2010 US$ '000	*2009 US$ '000*
Investment property revaluation reserve (45%)	**-**	188
Available for sale investments (45%)	**158**	-
Core Tier 2 Capital	**158**	188
Deductions	**(32,418)**	(29,130)
Tier 2 Capital	**(32,260)**	(28,942)

21 CAPITAL MANAGEMENT (continued)

21.2 Risk weighted assets

	2010	*2009*
	US$ '000	*US$ '000*
Credit risk weighted assets	**309,315**	310,379
Market risk weighted assets	**23,438**	29,680
Operational risk weighted assets	**25,397**	43,387
	358,150	383,446

Credit risk weighted assets

The Bank uses the standardised approach, which requires banks to use external credit ratings to combine them into categories to which standardised risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

Market risk weighted assets

The Bank does not maintain a trading book and, as a result, market risk-weighted assets result from the net foreign currency positions of the Group.

Operational risk weighted assets

In calculating operational risk-weighted assets, the Bank uses the basic indicator approach which calculates operational risk-weighted assets as a proportion of the average of three years' revenues.

22 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable segments being geographical segment and industrial segment.

Geographical segment

Geographical segment is a distinguishable component that is engaged in providing an individual product or service or a group of related products or services within a particular economic environment which may have risks and returns that may be different from the components operating in other economic environment.

Industrial segment

A business segment is a distinguishable component that is engaged in providing an individual product or service or a group of related product or services which may have risks and returns that may be different from those of other business segments.

	2010		*2009*	
	Assets	***Liabilities***	*Assets*	*Liabilities*
	US$'000	***US$'000***	*US$'000*	*US$'000*
Geographical segment:				
Bahrain	**83,649**	**16,096**	94,485	28,543
Europe	**237,456**	**97,952**	115,846	-
Others	**96,620**	**2,745**	96,458	2,234
	417,725	**116,793**	306,789	30,777

22 SEGMENTAL INFORMATION (continued)

Industrial segment:				
Banking and financial institutions	**54,945**	**101,337**	43,966	27,138
Aviation	**95,816**	**1,582**	95,922	1,971
Real estate	**23,664**	**-**	25,848	-
Utilities	**6,397**	**-**	4,555	-
Manufacturing	**224,902**	**11,587**	117,317	-
Others	**12,001**	**2,287**	19,181	1,668
	417,725	**116,793**	306,789	30,777

Segment total operating income, net operating expenses and net income / (loss) were as follows:

	2010			*2009*		
	Total operating income / (loss) US$'000	***Net operating expenses US$'000***	***Net income / (loss) US$'000***	*Total operating income / (loss) US$'000*	*Net operating expenses US$'000*	*Net loss US$'000*
Geographical segment:						
Bahrain	**4,819**	**(11,248)**	**(6,429)**	157	(44,125)	(43,968)
Europe	**35,973**	**(28,820)**	**7,153**	-	-	-
Others	**34,313**	**(27,791)**	**6,522**	36,406	(27,516)	8,890
	75,105	**(67,859)**	**7,246**	36,563	(71,641)	(35,078)
Industrial segment:						
Banking and financial institutions	**2,195**	**(10,270)**	**(8,075)**	157	(33,738)	(33,581)
Aviation	**34,313**	**(27,791)**	**6,522**	36,406	(27,516)	8,890
Real estate	**-**	**(978)**	**(978)**	-	(6,904)	(6,904)
Utilities	**1,950**	**-**	**1,950**	-	(3,483)	(3,483)
Manufacturing	**36,569**	**(28,820)**	**7,749**	-	-	-
Others	**78**	**-**	**78**	-	-	-
	75,105	**(67,859)**	**7,246**	36,563	(71,641)	(35,078)

23 RELATED PARTIES

Related parties comprise major shareholders, directors of the Group, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group. These transaction have been carried out on an arm's length basis in manner similar to transactions with a third party.

The significant balances with related parties were as follows:

	Note	***2010*** ***US$'000***	*2009* *US$'000*
Assets			
Quoted equity investments	6	**1,906**	8,761

The significant transactions in respect of related parties were as follows:

	2010 ***US$'000***	*2009* *US$'000*
Income		
Profit on amounts due from banks and financial institutions	**-**	48
Fee income	**108**	112
Gain on disposal of property and equipment	**78**	-
Expenses		
Board of Directors and Committees meetings' expenses and attendance allowances	**69**	68
Shari'a Supervisory Board meetings' expenses and attendance allowances	**51**	47
Fees expense	**23**	62

Key management personnel are those that posses significant decision making and direction setting responsibilities within the Bank. Staff costs attributable to key management personnel of the Bank is as follows:

	2010 ***US$'000***	*2009* *US$'000*
Short term employee costs	**1,958**	1,942
Termination costs	**265**	211
	2,223	2,153

24 COMMITMENTS

	Less than 1 year *US$ '000*	*1 to 5 years* *US$ '000*	*Total* *US$ '000*
At 31 December 2010			
Capital and other commitments	**749**	**3**	**752**
	749	**3**	**752**
At 31 December 2009			
Capital and other commitments	637	3	640
	637	3	640

25 SHARI'A SUPERVISORY BOARD

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

26 RISK MANAGEMENT

Risk management plays a critical role in the Group's decision making process. It is managed through a Management Investment Committee and the Asset Liability and Risk Management Committee. Both committees comprise of senior management drawn from key areas of the Group in implementing risk strategy and policies, monitoring and managing the key risks to which the bank is exposed. The Group is exposed to credit risk, concentration risk, profit rate risk, liquidity risk, equity price risk, foreign currency risk and operational risk.

Although management responsible for the key areas of the Bank are accountable for the risks that arise within their respective areas, the Risk Management Department independently identifies, measures, monitors and recommends appropriate steps to manage each type of risk. The Risk Management Department has independent access to the Board of Directors and updates them on the overall risk profile of the Group on a regular basis.

26.1 Risk management structure

Board of Directors
The Board of Directors is ultimately responsible for the overall risk management approach and for approving risk strategies, risk policies and procedures.

Shari'a Supervisory Board
The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Bank to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

Executive Committee
The Executive Committee of the Board considers and approves proposals to purchase and sell individual investments up to the limit accorded by the Board.

Management Investment Committee
One of the key risks the Group is exposed to, is the underwriting of investments and proprietary investments. It is the role of the Management Investment Committee to approve or disapprove such investments based on risks highlighted by the Risk Management Department and the relevant mitigating factors presented by the relevant business team.

Asset Liability and Risk Management Committee
The Asset Liability and Risk Management Committee's responsibility is to manage all risks including liquidity, rate of return, credit, market and operational risks within the Policy framework of the Bank and regulatory requirements. It recommends liquidity limits and concentration limits to the Board of Directors.

Risk Management Department
The Risk Management Department is responsible for developing and implementing appropriate risk management strategies and methodologies for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Risk management and reporting systems
The Risk Management Department is responsible for managing and monitoring risk exposures. The Risk Management Department measures risk through the use of risk models and provides reports to the Asset Liability and Risk Management Committee. Monitoring and controlling risks are managed through limits set by the Board. The Risk Management Department presents reports to the Board of Directors, Asset Liability and Risk Management Committee and other relevant departments as required. These reports include analysis of capital adequacy, credit exposure, investment exposure, and foreign currency exposures.

26 RISK MANAGEMENT (continued)

26.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counterparties. Counterparty limits are set by the Board of Directors and monitored by the Risk Management Department and reviewed regularly.

The Group does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of liquid funds on banks accounts, murabaha contracts, wakala contracts and receivables. The Group deploys excess funds in a conservative manner, targeting highly rated financial institutions locally and regionally.

Credit risk is managed by the Group through limits for each counterparty approved by the Board of Directors and monitored on a daily basis by the Risk Management Department. Any exception or deviation to the approved terms and conditions requires senior management approval and such exceptions are reported to the Board. The Group makes use of an internal rating system, covering a wide range of qualitative and quantitative factors, in assessing the creditworthiness of counterparties. The ratings generated by the internal rating system are compared, where applicable, against the ratings assigned by External Credit Assessment Institutions ["ECAI"] to ensure consistency between the ratings of the internal system and those of ECAI. ECAI considered by the Group are Standard and Poor's, Moody's and Fitch.

The Group does not have collateral for any of its credit risk exposures. In placing short-term funds with financial institutions the Group performs a credit analysis of each counterparty (including consideration of external credit rating if any), sets limits and monitor such limits.

The following table analyses the geographical and counterparty type concentrations of the Group's maximum exposure to credit risk:

(i) Maximum exposure to credit risk

	2010 ***US$'000***	*2009* *US$'000*
Balances with banks	**18,484**	4,362
Due from banks and financial institutions	**34,286**	37,940
Investments in leases	**93,390**	93,390
Other assets	**37,996**	6,128
	184,156	141,820

Exposures by geographical region

As at 31 December 2010:

	Bahrain ***US$'000***	***Europe*** ***US$'000***	***Other GCC countries*** ***US$'000***	***Other Middle East & Asia*** ***US$'000***	***North America*** ***US$'000***	***Total*** ***US$'000***
Balances with banks	**644**	**10,014**	**333**	**1,398**	**6,095**	**18,484**
Due from banks and financial institutions	**20,584**	**-**	**13,702**	**-**	**-**	**34,286**
Investments in leases	**34,988**	**47,057**	**-**	**11,345**	**-**	**93,390**
Other assets	**1,381**	**24,593**	**1,794**	**4,623**	**5,605**	**37,996**
	57,597	**81,664**	**15,829**	**17,366**	**11,700**	**184,156**

26 RISK MANAGEMENT (continued)

26.2 Credit risk (continued)

Exposures by geographical region

	Bahrain *US$'000*	*Europe* *US$'000*	*Other GCC countries* *US$'000*	*Other Middle East & Asia* *US$'000*	*North America* *US$'000*	*Total* *US$'000*
As at 31 December 2009:						
Balances with banks	781	2,142	65	-	1,374	4,362
Due from banks and				-	-	
financial institutions	30,939			-	-	30,939
Investments in leases	34,988	47,057	7,001	11,345	-	100,391
Other assets	972	862	1,297	2,997	-	6,128
	67,680	50,061	8,363	14,342	1,374	141,820

Exposure by industry:

As at 31 December 2010:

	Aviation *US$'000*	*Banking and finance* *US$'000*	*Manufacturing* *US$'000*	*Other* *US$'000*	*Total* *US$'000*
Balances with banks	**-**	**18,484**	**-**	**-**	**18,484**
Due from banks and financial institutions	**-**	**34,286**	**-**	**-**	**34,286**
Investments in leases	**93,390**	**-**	**-**	**-**	**93,390**
Other assets	**2,426**	**1,665**	**31,496**	**2,409**	**37,996**
	95,816	**54,435**	**31,496**	**2,409**	**184,156**

As at 31 December 2009:

Balances with banks	-	4,363	-	-	4,363
Due from banks and financial institutions	-	37,939	-	-	37,939
Investments in leases	93,390	-	-	-	93,390
Other assets	2,532	1,204	429	1,963	6,128
	95,922	43,506	429	1,963	141,820

26.3 Market Risk

Market risk is the risk that arises from fluctuations in market risk factors that include profit rate risk, currency risk and equity price risk and will have a negative impact on the Group income and/or will decrease the value of its portfolios.

Profit rate risk

Profit rate risk is combination of the rate of return risk and the risk of exposure due to the mismatch in the Group's profit-sensitive assets and liabilities caused by variations in the market reference rate, which would result in a decrease of the Group's net present value.

The Group currently has limited exposure to profit rate risk. The Group's assets that are exposed to profit rate risk comprise of due from financial institutions and due to banks and financial institutions and have repricing dates no longer than three months. During 2010, a +/- 0.5% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 92 thousand (31 December 2009: +/- 2% resulted in +/- US$ 317 thousand) impact on the consolidated statement of income.

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

The following table indicates the effective profit rates on such financial instruments:

	2010	*2009*
Investments in leases	**7.29%**	7.16%
Due from banks and financial institutions	**0.61%**	1.62%
Investments in Sukuk	**-**	3.50%
Due to banks and financial institutions	**1.50%**	3.19%

Currency risk
Currency risk represents fluctuations in exposures held by the Group in currencies other than the US$. The Group may engage, in the normal course of business, in transactions denominated in currencies other than its functional currency. The Bank risk management policy regulates such exposure by hedging currency exposures with Shari'a compliant instruments. Currency exposure is monitored daily by Risk Management Department and reported on a monthly basis to the Asset Liability and Risk Management Committee.

The Group has the following significant foreign currency exposures at the consolidated statement of financial position date:

	2010		
	Assets US$'000	***Liabilities US$'000***	***Net US$'000***
Danish Krone	**14,953**	**-**	**14,953**
Kuwaiti Dinars	**1,943**	**-**	**1,943**
Great Britain Pounds	**6,454**	**-**	**6,454**
Euro	**15,039**	**(14,973)**	**66**

	2009		
	Assets US$'000	*Liabilities US$'000*	*Net US$'000*
Danish Krone	16,219	-	16,219
Kuwaiti Dinars	8,809	-	8,809
Great Britain Pounds	4,635	-	4,635
Euro	15,641	(25,875)	(10,234)

The table below indicates the impact of reasonably possible changes in exchange rate on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the balance sheet date and calculating the impact of the change in exchange rate.

	Change in exchange rates (+/-)	***net income and equity (+/-)***
	%	***US$'000***
Danish Krone	**10**	**1,495**
Kuwaiti Dinars	**10**	**194**
Great Britain Pounds	**10**	**645**
Euro	**10**	**7**

Equity price risk
Equity price risk is the risk that the fair value of equity investments decreases due to fluctuations in the respective stock market indices.

26 RISK MANAGEMENT (continued)

26.3 Market risk (continued)

Equity price risk (continued)
As of year ended 31 December 2010 the Group had investments in quoted equities on the Kuwait Stock Exchange. The table below reflects the sensitivity of the investment portfolio to changes in these inputs. The sensitivity of trading investments is calculated by considering the impact of reasonably expected changes in the capitalisation rate.

	Change in equity price (+/-)	***Effect on net equity (+/-)***
	%	***US$'000***
Kuwait Stock Exchange	**10**	**191**

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

The total market risk weighted assets and regulatory capital requirements related to market risk are as follows:

	2010	*2009*
	US$ '000	*US$ '000*
Foreign exchange risk	**23,438**	29,680
Regulatory capital requirement (at 12%)	**2,813**	3,562

26.4 Operational risk

Operational risk is the risk of loss arising from human error, fraud, and control or system failure which may cause legal, regulatory and financial loss. The Group has implemented a strong corporate governance framework and control mechanism to prevent such potential operational risks. The Bank’s internal audit function performs regular independent audits of each critical area and reports to the Board Audit Committee on a regular basis.

The Group has in place an operational risk policy that set guidelines to manage the Group’s exposure to loss and protects its assets and outlines the principles of the Group’s operational risk management framework. This policy is supplemented by specific operational risk management procedures. The operational risk management framework provides directives associated with the operational risk in terms of identification, assessment, monitoring and reporting, mitigation and control of operational risks.

The policy also sets out the responsibility and accountability of all parties related to the operational risk represented by the Board of Directors, Audit Committee, Asset Liability and Risk Management Committee, Risk Management Department, staff, contractors and Internal Audit.

26 RISK MANAGEMENT (continued)

26.4 Operational risk (continued)

The Risk Appetite is defined by the Group as the amount of risk that is acceptable to the Group. The operational risk appetite is determined by Risk Management Department on an ongoing basis based on a bottom-up approach following discussion with other lines of business. Operational Risk Appetite is approved by the Asset Liability and Risk Management Committee, ratified by the Board and documented and communicated via the Board-approved policy. The Group adopts qualitative and quantitative criteria in measuring its risk appetite.

The Group, based on the operational risk management framework, has implemented a strong governance framework and control mechanism to manage this risk and reduce potential operational risks. The controls in place include segregation of duties, access controls, authorisation, approval and reconciliation procedures, staff education and appraisal processes.

The Group measures and allocates capital to its operational risk using the Basic Indicator Approach. The total operational risk weighted assets and regulatory capital requirements related to the operational risk are as follows:

	2010	*2009*
	US$ '000	*US$ '000*
Average gross income	**13,545**	23,140
Operational risk weighted assets	**25,397**	43,387
Regulatory capital requirement (at 12%)	**3,048**	5,206

27 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

Credit risk

(i) Maximum exposure

As at 31 December 2010:

	Gross funded credit exposures US$ '000	*Net funded credit exposures US$ '000*	*Credit risk weighted exposures US$ '000*	*Regulatory capital requirements US$ '000*
Investments	**247,681**	**182,655**	**284,955**	**34,195**
Due from banks and financial institutions				
Murabaha receivables	**11,502**	**11,502**	**3,651**	**438**
Wakala receivables	**22,784**	**7,811**	**1,562**	**187**
Other assets	**20,622**	**20,622**	**19,147**	**2,298**
	302,589	**222,590**	**309,315**	**37,118**

As at 31 December 2009:

Investments	248,314	189,823	285,966	34,316
Due from banks and financial institutions				
Murabaha receivables	34,740	8,866	4,433	532
Wakala receivables	3,000	3,000	1,500	180
Mudaraba receivables	200	200	40	5
Other assets	20,535	20,536	18,440	2,213
	306,789	222,425	310,379	37,246

The year-end credit exposure position as disclosed above is representative of the risk positions of the Group during the period and accordingly, the average gross exposures have not been disclosed. Under CBB prudential guidelines investment in a commercial entity is not consolidated.

(ii) Geographical region and counterparty

Net funded credit exposures by geographical region

As at 31 December 2010:

		Due from banks and financial institutions				
	Investments US$ '000	***Murabaha receivable US$ '000***	***Wakala receivable US$ '000***	***Mudaraba receivables US$ '000***	***Other US$ '000***	***Total US$ '000***
Europe	**110,946**	**-**	**-**	**-**	**4,995**	**115,941**
Bahrain	**45,463**	**4,501**	**1,110**	**-**	**10,461**	**61,535**
Other GCC Countries	**1,713**	**7,001**	**6,701**	**-**	**1,860**	**17,275**
Other Middle East and Asia	**24,533**	**-**	**-**	**-**	**2,905**	**27,438**
North America	**-**	**-**	**-**	**-**	**401**	**401**
	182,655	**11,502**	**7,811**	**-**	**20,622**	**222,590**

As at 31 December 2009:

Europe	109,200	-	-	-	3,004	112,204
Bahrain	46,212	4,866	-	200	11,798	63,076
Other GCC Countries	8,761	4,000	3,000	-	1,362	17,123
Other Middle East and Asia	25,650	-	-	-	2,998	28,648
North America	-	-	-	-	1,374	1,374
	189,823	8,866	3,000	200	20,536	222,425

Credit risk (continued)

(ii) Geographical region and counterparty (continued)

Counterparty type:

Net funded credit exposures by counterparty:

As at 31 December 2010:

	Investments US$'000	***Murabaha receivable US$'000***	***Wakala receivable US$'000***	***Mudaraba receivables US$'000***	***Other US$'000***	***Total US$'000***
Investment in securities	**158,991**	**-**	**-**	**-**	**-**	**158,991**
Claims on banks	**-**	**11,502**	**7,811**	**-**	**4,680**	**23,993**
Holdings of real estate	**23,664**	**-**	**-**	**-**	**7,313**	**30,977**
Claims on corporates	**-**	**-**	**-**	**-**	**6,489**	**6,489**
Other assets	**-**	**-**	**-**	**-**	**2,140**	**2,140**
	182,655	**11,502**	**7,811**	**-**	**20,622**	**222,590**

Net funded credit exposures by counterparty

As at 31 December 2009:

	Investments US$'000	*Murabaha receivables US$'000*	*Wakala receivables US$'000*	*Mudaraba receivables US$'000*	*Other assets US$'000*	*Total US$'000*
Investment in securities	178,599	-	-	-	-	178,599
Claims on banks	-	8,866	3,000	200	4,362	16,428
Holdings of real estate	11,224	-	-	-	7,847	19,071
Other assets	-	-	-	-	8,327	8,327
	189,823	8,866	3,000	200	20,536	222,425

(iii) Analysis of exposure to credit risk by external credit ratings

No financial assets are past due or impaired. The table below analyses the Group's maximum credit exposure where the credit quality is reflected by Standard and Poor's, Moody's and Fitch credit ratings where relevant of the counterparties:

	2010 US$ '000	*2009 US$ '000*
Credit rating:		
AAA to AA-	**14,144**	1,411
A+ to A-	**5,839**	11,907
BBB+ to BBB-	**1,570**	264
BB+ to B-	**2,376**	1,995
Unrated	**198,661**	206,848
	222,590	222,425

Credit risk (continued)

(iv) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentration indicates relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group has established guidelines assigning limits for countries, industry, currencies etc.

The distribution of assets and liabilities by geographical region and industry sector was as follows:

	2010		*2009*	
	Assets US$'000	***Liabilities US$'000***	*Assets US$'000*	*Liabilities US$'000*
Geographical region:				
Bahrain	**76,507**	**16,713**	89,180	27,662
Other Gulf Cooperation Council (GCC) Countries	**17,468**	**211**	17,123	55
Europe	**180,775**	**1,110**	170,465	1,399
Other Middle East and Asia	**27,438**	**807**	28,647	1,661
North America	**401**	**-**	1,374	-
	302,589	**18,841**	306,789	30,777

	2010		*2009*	
	Assets US$'000	***Liabilities US$'000***	*Assets US$'000*	*Liabilities US$'000*
Industry sector:				
Banking and financial institutions	**41,141**	**14,973**	43,966	27,138
Aviation	**95,815**	**1,582**	95,922	1,971
Real estate	**23,664**	**-**	25,848	-
Utilities	**6,397**	**-**	4,555	-
Manufacturing	**124,725**	**-**	117,317	-
Services	**3**	**-**	7,173	-
Others	**10,844**	**2,286**	12,008	1,668
	302,589	**18,841**	306,789	30,777

Credit risk (continued)

(v) Large exposures

The Group follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

As at 31 December 2010:

	Large exposure (banks) US$ '000	***% of exposure to capital***		***Large exposure (non - banks) US$ '000***	***% of exposure to capital***
Bank A	**7,001**	***2.5%***	Counterparty A	**107,369**	***37.9%***
Bank B	**6,701**	***2.4%***	Counterparty B	**37,985**	***13.4%***
Bank C	**4,500**	***1.6%***	Counterparty C	**17,309**	***6.1%***
Bank D	**2,376**	***0.8%***	Counterparty D	**15,264**	***5.4%***
Bank E	**1,099**	***0.4%***	Counterparty E	**14,953**	***5.3%***
Bank F	**1,052**	***0.4%***	Counterparty F	**13,188**	***4.7%***
			Counterparty G	**12,500**	***4.4%***
			Counterparty H	**12,317**	***4.3%***
			Counterparty I	**6,397**	***2.3%***
			Counterparty J	**3,130**	***1.1%***
			Counterparty K	**2,884**	***1.0%***
			Counterparty L	**1,398**	***0.5%***

As at 31 December 2009:

	Large exposure (banks) US$ '000	*% of exposure to capital*		*Large exposure (non - banks) US$ '000*	*% of exposure to capital*
Bank A	4,000	*1.5%*	Counterparty A	99,627	*36.1%*
Bank B	4,000	*1.5%*	Counterparty B	37,985	*13.8%*
Bank C	3,000	*1.1%*	Counterparty C	17,309	*6.3%*
Bank D	851	*0.3%*	Counterparty D	16,219	*5.9%*
Bank E	215	*0.1%*	Counterparty E	15,264	*5.5%*
			Counterparty F	14,304	*5.2%*
			Counterparty G	12,500	*4.5%*
			Counterparty H	12,318	*4.5%*
			Counterparty I	7,170	*2.6%*
			Counterparty J	6,014	*2.2%*
			Counterparty K	4,555	*1.7%*
			Counterparty L	1,042	*0.4%*

Credit risk (continued)

(vi) Liquidity risk

Liquidity risk is inherent in all banking institutions and arises mainly from mismatching of timing in the cash flows and can be affected by a range of institution specific and market-wide events including credit events, mergers and acquisitions and economic shocks. Liquidity is monitored regularly by the Asset Liability and Risk Management Committee ["AL&RMCO"].

The Group policies and procedures lay out guidelines that will optimise use of excess liquidity and ensure availability of funds to meet the Group's obligations when they fall due. The Group's funding guidelines include: 1) The mobilisation and placement of short term funds through placements and murabaha transactions by Treasury, 2) All funding objectives should be aligned to the strategic objectives of the Bank, 3) The composition, characteristics and diversification of the Bank's funding structure will be monitored by AL&RMCO and executed by Treasury, Treasury will maintain the counterparty relationships to obtain the necessary lines of funding, 4) AL&RMCO will monitor the concentration of funding sources across products and counterparties and effect measures to mitigate undue concentrations, 5) Treasury will implement the deals within the approved guidelines, including the approved products and the counterparties.

The maturity profile of assets and liabilities as at 31 December 2010 based on contractual maturity is as follows:

	Upto 1 month US$'000	*1 to 3 months US$'000*	*3 to 6 months US$'000*	*6 months to 1 year US$'000*	*Sub-total 1 year US$'000*	*1 to 3 years US$'000*	*Over 3 years US$'000*	*Sub-total over 1 year US$'000*	*No fixed maturity US$'000*	*Total US$'000*
Assets										
Cash and balances with banks	**4,682**	**-**	**-**	**-**	**4,682**	**-**	**-**	**-**	**-**	**4,682**
Due from banks and financial institutions	**18,262**	**16,024**	**-**	**-**	**34,286**	**-**	**-**	**-**	**-**	**34,286**
Non-trading investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,494**	**21,494**
Investments in leases	**5,540**	**-**	**-**	**-**	**5,540**	**22,669**	**65,181**	**87,850**	**-**	**93,390**
Net assets of disposal group classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**122,321**	**122,321**
Investment property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,476**	**10,476**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,504**	**7,504**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,436**	**8,436**
	28,484	**16,024**	**-**	**-**	**44,508**	**22,669**	**65,181**	**87,850**	**170,231**	**302,589**
Liabilities										
Due to banks and financial institutions	**-**	**14,973**	**-**	**-**	**14,973**	**-**	**-**	**-**	**-**	**14,973**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,868**	**3,868**
	-	**14,973**	**-**	**-**	**14,973**	**-**	**-**	**-**	**3,868**	**18,841**
Net	**28,484**	**1,051**	**-**	**-**	**29,535**	**22,669**	**65,181**	**87,850**	**166,363**	**283,748**

ADDITIONAL DISCLOSURES FOR CREDIT RISK IN COMPLIANCE WITH PUBLIC DISCLOSURE MODULE OF THE CENTRAL BANK OF BAHRAIN

Appendix to Consolidated Financial Statements for the Year Ended 31 December 2010

Credit risk (continued)

(vi) Liquidity risk

The maturity profile of assets and liabilities as at 31 December 2009 based on contractual maturity is as follows:

	Upto 1 month US$'000	*1 to 3 months US$'000*	*3 to 6 months US$'000*	*6 months to 1 year US$'000*	*Sub-total 1 year US$'000*	*1 to 3 years US$'000*	*Over 3 years US$'000*	*Sub-total over 1 year US$'000*	*No fixed maturity US$'000*	*Total US$'000*
Assets										
Cash and balances with banks	4,363		-	-	4,363	-	-	-	-	4,363
Due from banks and financial institutions	22,730	15,210	-	-	37,940	-	-	-	-	37,940
Non-trading investments	-		-	-	-	-	-	-	27,624	27,624
Investments in leases	-	2,883	2,657	-	5,540	-	87,850	87,850	-	93,390
Net assets of disposal group classified as held for sale	-	-	-	-	-	-	-	-	115,846	115,846
Investment property	-	-	-	-	-	-	-	-	11,454	11,454
Other assets	-	-	-	-	-	-	-	-	6,128	6,128
Property and equipment	-	-	-	-	-	-	-	-	10,044	10,044
	27,093	18,093	2,657	-	47,843	-	87,850	87,850	171,096	306,789
Liabilities										
Due to banks and financial institutions	11,514	14,360	-	-	25,874	-	-	-	-	25,874
Other liabilities	-	-	-	-	-	-	-	-	4,903	4,903
	11,514	14,360	-	-	25,874	-	-	-	4,903	30,777
Net	15,579	3,733	2,657	-	21,969	-	87,850	87,850	166,193	276,012