Ernst & Young

ERNST & YOUNG

Investors Bank B.S.C. (c)

UNIFIED SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

INVESTORS Bank B.S.C. (C)

بنك المستثمرون ش.م.ب (مقفلة)

In the Name of Allah, The Beneficent, The Merciful

SHARI'A BOARD'S REPORT

To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

In compliance with the letter of appointment, we are required to submit the following report: We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Investors Bank during the period ended 31/12/2010.

We have also conducted our review to form an opinion as to whether Bank has complied with Shari'a Rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

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

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

In our opinion:

(1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2010 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;

(2) 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'a Rules and Principles;

(3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

12th Rabia I, 1432 Hijri corresponding to 15th February 2011.

SHARI'A BOARD

Shaikh Dr. Abdul Sattar A.Karim Abu Ghuddah Chairman of the Board	Shaikh Dr. Ali Mohieddin Al Quradaghi Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

ص.ب: ١١٨١٨ ، المنامة ، مملكة البحرين ، هاتف : ١٧٥٦٥٧٧٧ (٩٧٣+) ، فاكس : ١٧٥٨٣٤٢٤ ، ١٧٥٨٣٧٥٥ (٩٧٣+) ، س.ت: ٣٩٦٤٦
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Email: info@investorsb.com - Website: www.investorsb.com

INVESTORS Bank B.S.C. (c)

بنك المستثمرون

REPORT OF THE BOARD OF DIRECTORS

for the year ended 31 December 2010 US dollars

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

Dear Shareholders

The Directors have pleasure to submit their report, together with the financial statements of Investors Bank B.S.C. (c) ("the Bank") for the year ended 31 December 2010.

Principal Activities

The Bank was established in the Kingdom of Bahrain as exempt company on 26 October 1997 and operates under a Wholesale Bank (Islamic principles) license granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005.

During the year 2010 the bank did not undertake any new investment transactions, except exiting from certain investments.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2010 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2010	2009
Total asset	**46,227,832**	74,256,671
Total equity	**38,863,382**	66,908,354
Loss for the year	**(27,277,875)**	(21,216,840)

ص.ب: ١١٨١٨ ، المنامة ، مملكة البحرين ، هاتف : ١٧٥٦٥٧٧٧ (+٩٧٣) ، فاكس : ١٧٥٨٣٤٢٤ ، ١٧٥٨٣٧٥٥ (+٩٧٣) ، س.ت: ٣٩٦٤٦
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Movement in accumulated losses	2010	2009
Balance at 1 January	**(23,912,862)**	(2,696,022)
Loss for the year	**(27,277,875)**	(21,216,840)
Balance at 31 December	**(51,190,737)**	(23,912,862)

Dividends
The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2010 (2009: nil).

Directors and Management
The following served as directors of the Bank during the year ended 31 December 2010:

Name	Title
Dr. Abdulaziz Al Bader	Chairman
Mr. Hamad Abdulla Al-Ghanim	Vice-Chairman and Chairman of the Audit Committee
Mr. Ahmed Shabib Al Dhahery	Member
Mr. Ghassan Fahad Al Sultan	Member
Mr. Isa Abdulla Al Mannai	Member and Chairman of the Executive Committee
Mr. Eyad Omer Al-Serri	Member

Auditors
Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending 31 December 2011, will be submitted to the Annual General Meeting.

Thanks

We wish to express our gratitude and appreciation to His Majesty King Hamed Bin Isa Al Khalifa, the King of Bahrain, to his highness Amir Khalifa Bin Salman Al Khalifa, the Prime Minister and His Highness Amir Salman Bin Hamed Al Khalifa, the Crown Prince and Commander-in-Chief of the Bahrain Defence Force, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Stock Exchange for their vision , guidance and continuous support for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Shari'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.

Dr. Abdulaziz Al Bader
Chairman

Hamad Abdulla Al-Ghanim
Vice Chairman and Chairman of the Audit Committee

22 February 2011

ERNST & YOUNG

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C.R. No. 6700

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

We have audited the accompanying statement of financial position of INVESTORS BANK B.S.C. (c) ["the Bank"] as of 31 December 2010, and the related statements of income, cash flows, changes in equity, sources and uses of charity fund for the year then ended. These financial statements and the Bank'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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

ERNST & YOUNG

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

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these 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 financial position and that the Bank has complied with the terms of its banking license and has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst + Young

22 February 2011
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	**2010 US$**	2009 US$
ASSETS			
Cash and balances with banks	3	**411,444**	612,263
Investments	4	**16,677,570**	27,669,174
Deferred payment sale receivables	19	**3,680,203**	3,680,203
Investment properties	5	**20,020,445**	27,571,404
Other assets	6	**1,594,222**	7,624,912
Property and equipment	7	**3,843,948**	7,098,715
TOTAL ASSETS		**46,227,832**	74,256,671
LIABILITIES AND EQUITY			
Liabilities			
Due to a financial institution	19	**3,670,202**	3,670,202
Murabaha payable		**3,229,064**	3,229,064
Other liabilities		**465,184**	449,051
Total liabilities		**7,364,450**	7,348,317
Equity			
Share capital	8	**80,000,000**	80,000,000
Statutory reserve		**7,409,515**	7,409,515
Investments fair value reserve		**2,644,604**	3,411,701
Accumulated losses		**(51,190,737)**	(23,912,862)
Total equity		**38,863,382**	66,908,354
TOTAL LIABILITIES AND EQUITY		**46,227,832**	74,256,671
Restricted investment accounts		**16,424,155**	16,228,225

Dr. Abdulaziz Al Bader

Chairman

Hamad Abdulla Al Ghanim

Vice Chairman and Chairman of the Audit Committee

The attached notes 1 to 21 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF INCOME

For the year ended 31 December 2010

	Notes	**2010 US$**	*2009 US$*
Income/(Loss) from trading investments	9	**5,902**	(20,651)
Income from available-for-sale investments	10	**291,792**	16,965
Fair value loss on trading investments		**(3,402,560)**	(69,453)
Income from Mudaraba investment		-	63,680
Other income	11	**793,613**	426,733
Total net (loss)/income		**(2,311,253)**	417,274
Staff cost		**1,123,068**	1,340,145
Administrative and general expenses	12	**612,686**	1,414,552
Net provision for impairment	13	**22,089,835**	17,771,243
Depreciation		**1,141,033**	1,108,174
Total expenses		**24,966,622**	21,634,114
LOSS FOR THE YEAR		**(27,277,875)**	(21,216,840)

The attached notes 1 to 21 form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 US$	2009 US$
OPERATING ACTIVITIES			
Loss for the year		**(27,277,875)**	(21,216,840)
Adjustments for:			
Depreciation		**1,141,033**	1,108,174
(Gain)/Loss on disposal of property and equipment		**(2,035)**	3,846
Net provision for impairment	13	**22,089,835**	17,771,243
Gain on disposal of available for sale investments	10	**(291,792)**	(6,531)
Fair value loss on trading investments		**3,402,560**	69,453
Loss on disposal of trading investments		**-**	46,355
Operating loss before changes in operating assets and liabilities:		**(938,274)**	(2,224,300)
Changes in operating assets and liabilities:			
Other assets		**158,212**	550,465
Other liabilities		**16,133**	5,402
Net cash (used in) operating activities		**(763,929)**	(1,668,433)
INVESTING ACTIVITIES			
Purchase of trading investments		**-**	(57,285)
Proceeds from disposal of trading investments		**-**	68,645
Purchase of available for sale investments		**-**	(492,461)
Proceeds from disposal of available for sale investments		**560,590**	145,897
Purchase of property and equipment		**-**	49,995
Proceeds from disposal of property and equipment		**2,520**	8,721
Net cash from / (used in) investing activities		**563,110**	(276,488)
DECREASE IN CASH AND CASH EQUIVALENTS		**(200,819)**	(1,944,921)
Cash and cash equivalents at beginning of the year		**612,263**	2,557,184
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**411,444**	612,263

The attached notes 1 to 21 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital *US$*	*Statutory reserve* *US$*	*Investments fair value reserve* *US$*	*Accumulated losses* *US$*	*Total* *US$*
Balance at 1 January 2010	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354
Loss for the year	-	-	-	(27,277,875)	(27,277,875)
Fair value loss during the year	-	-	(767,097)	-	(767,097)
Balance as at 31 December 2010	**80,000,000**	**7,409,515**	**2,644,604**	**(51,190,737)**	**38,863,382**
Balance at 1 January 2009	80,000,000	7,409,515	2,959,559	(2,696,022)	87,673,052
Loss for the year	-	-	-	(21,216,840)	(21,216,840)
Fair value gain during the year	-	-	452,142	-	452,142
Balance as at 31 December 2009	80,000,000	7,409,515	3,411,701	(23,912,862)	66,908,354

The attached notes 1 to 21 form part of these financial statements

Investors Bank B.S.C.(c)

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the year ended 31 December 2010

	Balance at 1 January 2010			Movements during the year					Balance at 31 December 2010		
	No of units (000)	Average value per share US$	Total US$	Investment/ (withdrawal) US$	Revaluations US$	Investment profit/ (loss) US$	Bank's fees as an agent US$	Administration expenses US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.07	10,240,334	-	195,930	-	-	-	142,059	0.07	10,436,264
			16,228,225	-	**195,930**	-	-	-			**16,424,155**

	Balance at 1 January 2009			Movements during the year					Balance at 31 December 2009		
	No of units (000)	Average value per share US$	Total US$	Investment/ (withdrawal) US$	Revaluations US$	Investment profit/ (loss) US$	Bank's fees as an agent US$	Administration expenses US$	No of units (000)	Average value per share US$	Total US$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.08	10,658,932	-	(418,598)	-	-	-	142,059	0.07	10,240,334
			16,646,823	-	(418,598)	-	-	-			16,228,225

1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties.

2. On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 19).

The attached notes 1 to 21 form part of these financial statements

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2010

	2010	*2009*
	US$	*US$*
Sources of charity fund		
Non-Islamic income	-	296
Total sources	-	296
Uses of charity fund		
Contributions to charitable organisations	**266**	-
Total uses	**266**	-
Excess of sources over uses	**(266)**	296
Undistributed charity fund at 1 January	**35,551**	35,255
Undistributed charity fund at 31 December	**35,285**	35,551

1 INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) ["the Bank"] was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain ["the CBB"]. The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005. The postal address of the registered office of the Bank is Seef Star Building, Seef District, PO Box 11818, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

(a) Providing investment account facilities;
(b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Shari'a;
(c) Managing the investment of third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the Shari'a;
(d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
(e) Purchasing, leasing and constructing buildings, and the renting thereof.

The Bank has not undertaken any new significant business activity since 2009 on account of losses, termination of key management staff and over all downturn in the global economies.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 22 February 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These 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 Bank, the Bahrain Commercial Companies Law ["BCCL"], 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"].

The Bank incurred a loss of US$ 27,277,875 during the year ended 31 December 2010 (2009: 21,216,840) and as of that date, the Bank's accumulated losses of US$ 51,190,737 (2009:23,912,862) which represents a significant portion of the Bank's equity.The shareholders are confident that the Bank will generate positive results in the future and, hence, the financial statements have been prepared on a going concern basis.

2.2 Accounting Convention

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

The financial statements have been presented in United States Dollar ["US$"], being the functional currency of the Bank.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Convention (continued)

2.2.1 New financial accounting standards

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

Financial Accounting Standard No. 23 - Consolidation

During the year, the Bank 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 Bank 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.

2.3 Significant accounting judgments and estimates

The application of the accounting policies requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

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.

2.4 Impairment of financial assets

The Bank 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 Bank 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.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks with original maturities of less than ninety days.

2.6 Investments

These are classified as either trading investments or 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investments (continued)

Trading Investments
Subsequent to initial recognition investments that are classified as trading investments are carried at fair value. The fair value changes of trading investments are reported in the statement of income.

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

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

2.7 Deferred payment sale receivables
Receivables arising from deferred payment sale are recognised at the time of contracting and stated at their cost less impairment.

2.8 Investment properties
Investment properties are held to earn rentals or for capital appreciation. They are initially recorded at cost, including acquisition charges associated with the properties.

Subsequent to initial recognition, buildings classified as investment properties are premeasured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful life. Freehold land is subsequently measured at cost less accumulated impairment losses.

Expenditure for maintenance and repairs is expensed as incurred. An item of investment property is derecognized 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 statement of income.

The residual values, useful lives and methods of depreciation for investment properties are reviewed, and adjusted if appropriate, at each financial year end.

2.9 Property and equipment
Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the 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:

Building	25 years
Others	3-5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property and equipment (continued)

Expenditure for maintenance and repairs is expensed as incurred. An item of property and equipment is derecognized 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 statement of income.

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

2.10 Due to 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.

2.11 Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified investment instruments as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

Restricted investments in quoted securities are valued at their market bid price. Restricted investments in securities for which there are no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

2.12 Employees' end of service benefits

The Bank provides end of service benefits to its employees in accordance with the requirement of Bahrain Labor 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 Bank's obligations are limited to these contributions, which are expensed when due.

2.13 Recognition of income and expenses

Dividend income

Dividend income from investments is recognized when the right to receive is established.

Rental income

Rental income is recongnised on the basis of contractual amounts receivable on a time apportioned basis.

2.14 Earnings prohibited by Shari'a

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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 Bank 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 Bank 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.

2.16 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 statement of financial position date. All differences are taken to the 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. Non monetary items carried at fair value are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to equity as "investment fair value reserve."

2.17 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 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.

2.18 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.19 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, 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 Bank intends to settle on a net basis.

2.20 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 Bank.

3 CASH AND BALANCES WITH BANKS

	2010 US$	2009 US$
Cash in hand	**1,326**	1,326
Cash at banks	**410,118**	610,937
	411,444	612,263

4 INVESTMENTS

	2010 US$	2009 US$
Trading investments	**2,209,022**	5,611,582
Available-for-sale investments		
Investment in shares		
Quoted – at fair value	**19,029,985**	19,652,965
Unquoted – at cost *	**1,778,727**	1,764,107
Investment in funds	**862,985**	1,442,525
	21,671,697	22,859,597
Net provision for impairment	**(7,203,149)**	(802,005)
	14,468,548	22,057,592
	16,677,570	27,669,174

* These investments are recorded at cost since there fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold them for the long term.

Movement in the net provision for impairment on available-for-sale investments:

	2010 US$	2009 US$
At 1 January	**802,005**	801,978
Provision for impairment during the	**6,553,149**	27
Provision reversed due to disposal of investment	**(152,005)**	-
At 31 December	**7,203,149**	802,005

Material available-for-sale investments as at current year end are as follows:

	Country of incorporation	*% ownership*	*Amount US$*	*Nature of main activities*
Quoted shares at fair value				
Bahrain Islamic Bank BSC	Bahrain	1.2	2,778,466	Commercial banking in accordance with Islamic Shari'a.
Takaful International BSC	Bahrain	18.03	7,771,808	Takaful – insurance according to the Islamic Shari'a.

As at 31 December 2010, investments with carrying value of US$ 2,778,466 (2009: US$ 4,306,622) were held in the name of a financial institution and pledged as collateral against amounts due to the financial institution (note 19).

5 INVESTMENT PROPERTIES

	Freehold land US$	*Buildings US$*	*Total US$*
Cost:			
At 1 January 2010	18,742,649	15,434,430	34,177,079
Disposals	-	(1,945,669)	(1,945,669)
At 31 December 2010	**18,742,649**	**13,488,761**	**32,231,410**
Depreciation and impairment:			
At 1 January 2010	5,154,943	1,450,732	6,605,675
Impairment	3,309,191	1,857,782	5,166,973
Charge for the year	-	574,075	574,075
Disposals	-	(135,758)	(135,758)
At 31 December 2010	**8,464,134**	**3,746,831**	**12,210,965**
Net carrying values:			
At 31 December 2010	**10,278,515**	**9,741,930**	**20,020,445**
At 31 December 2009	13,587,706	13,983,698	27,571,404

The fair value of investment properties at the year end date was US$ 21,448,792 determined based on valuations performed by independent professional valuers as of 31 December 2010.

6 OTHER ASSETS

	2010 US$	*2009 US$*
Current account with related parties (note 16)	**9,349,698**	7,710,884
Dividends receivable (note 16)	**2,597,109**	2,597,109
Statutory deposit with CBB	**13,263**	13,263
Prepaid expenses	**7,110**	69,550
Qard Hassan	**31,144**	134,292
Advance towards purchase of AFS investment (note 16)	**408,535**	408,535
Others	**1,054,972**	876,499
	13,461,831	11,810,132
Provision for impairment	**(11,867,609)**	(4,185,220)
	1,594,222	7,624,912

7 PROPERTY AND EQUIPMENT

	Freehold land US$	*Building US$*	*Motor vehicles US$*	*Office equipment & furniture US$*	*Fixtures US$*	*Total US$*
Cost:						
At 1 January 2010	3,535,847	3,793,497	58,045	872,227	1,346,991	9,606,607
Additions	-	-	-	-	-	-
Disposals	-	-	-	(32,449)	-	(32,449)
At 31 December 2010	**3,535,847**	**3,793,497**	**58,045**	**839,778**	**1,346,991**	**9,574,158**
Depreciation and impairment:						
At 1 January 2010	1,228,548	113,805	58,045	570,049	537,445	2,507,892
Charge for the year	-	116,643	-	180,916	269,399	566,958
Impairment	185,283	2,502,041	-	-	-	2,687,324
Disposals	-	-	-	(31,964)	-	(31,964)
At 31 December 2010	**1,413,831**	**2,732,489**	**58,045**	**719,001**	**806,844**	**5,730,210**
Net carrying values:						
At 31 December 2010	**2,122,016**	**1,061,008**	-	**120,777**	**540,147**	**3,843,948**
At 31 December 2009	2,307,299	3,679,692	-	302,178	809,546	7,098,715

The property and equipment mainly represents land and building in the Kingdom of Bahrain. The impairment charge is based on valuations performed by independent professional valuers as of 31 December 2010 and 31 December 2009.

8 EQUITY

Share capital

	2010 **US$**	2009 US$
Authorised:		
303,030,303 ordinary shares of US$ 0.33	**100,000,000**	100,000,000
Issued and fully paid up:		
242,424,242 shares of US$ 0.33 each	**80,000,000**	80,000,000

Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit 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. No transfers were made during the year as the Bank incurred a loss.

Investment fair value reserve
This represents the unrealised gain on revaluation of Available-for-sale investments. The reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition.

9 INCOME/(LOSS) FROM TRADING INVESTMENTS

	2010 **US$**	2009 US$
Dividend income	**5,902**	25,704
Loss on disposal of trading investments	-	(46,355)
	5,902	(20,651)

10 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

	2010 **US$**	2009 US$
Dividend income	-	10,434
Gain on disposal of available-for-sale investments	**291,792**	6,531
	291,792	16,965

11 OTHER INCOME

	2010 **US$**	2009 US$
Net income from investment properties	**625,034**	275,314
Other income	**168,579**	151,419
	793,613	426,733

12 ADMINISTRATIVE AND GENERAL EXPENSES

	2010	*2009*
	US$	*US$*
Consultancy and legal expenses	**181,272**	316,719
Professional fees	**91,512**	61,008
License and registration	**35,385**	34,562
Shari'a Supervisory Board meetings' expenses and attendance allowances	**30,070**	31,552
Board of Directors and Committees meetings' expenses and attendance allowances	**20,696**	29,882
Advertising and promotion	**16,415**	17,737
Communication	**13,023**	15,032
Business development	**4,881**	8,009
Brokerage fees	**331**	370
Foreign exchange loss	**41**	759,425
Others	**219,060**	140,256
	612,686	1,414,552

13 NET PROVISION FOR IMPAIRMENT

		2010	*2009*
		US$	*US$*
Available-for-sale investments	*(a)*	**6,553,149**	27
Receivable from Mudarib		**-**	4,464,281
Receivables from sale of investments		**-**	11,160,346
Investment properties	*(b)*	**5,166,973**	922,405
Other assets	*(c)*	**7,682,389**	1,893,255
Property & equipment	*(d)*	**2,687,324**	1,228,548
Provision write back		**-**	(1,897,619)
		22,089,835	17,771,243

(a) This mainly represents the decline in the market value of quoted shares in First Takaful Insurance Company and BISB.

(b) The impairment is based on the latest valuation performed by the independent valuer as of 31 December 2010.

(c) This amount pertains to the current account receivable from GRAND. The amount of US$ 6,043,576 was not provided by the client last year on the basis of which the auditor's report was qualified. During 2010 the full amount has been provided by the client based on the instruction received from CBB in a letter dated 2 June 2010.

(d) The impairment charge for the year is based on the valuations performed by independent valuer as of 31 December 2010.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 Bank's quoted equity investments qualify for disclosure under Level 1 and their carrying value as at 31 December 2010 is US$ 14,685,858 (2009: US$ 25,264,547). The Bank does not have financial instruments qualifying for Level 2 or Level 3. The other available for sale investments are carried at cost less impairment, if any.

15 CAPITAL MANAGEMENT

The Bank follows the CBB guidelines for capital requirements and maintains sufficient capital to ensure compliance with the minimum capital requirements.

The Bank's regulatory capital is analyzed in two tiers as per CBB guidelines and includes:

- Tier 1: Core capital - This includes issued and fully paid ordinary shares, statutory reserve, retained earnings and unrealized gains on trading investments (45% of the value); and
- Tier 2: Supplementary Capital – current retained profits, asset revaluation reserves and unrealized gains arising from fair valuing equities (45% of the value).

The risk weighted assets are determined according to CBB guidelines that seek to reflect the varying levels of risk attached to assets. The Bank's policy is to maintain a capital adequacy ratio ["CAR"], at all times, in excess of the minimum required by CBB. The current requirement for the Bank is 15%.

The Bank has adopted the Standardized Approaches to credit and market risk and Basic Indicator Approach to operational risk management under the revised framework.

The Bank's regulatory capital position at 31 December was as follows:

	2010 ***Basel II***	*2009* *Basel II*
Total risk weighted assets (a)	**104,313,869**	144,282,013
Total regulatory capital, net of deductions (b)	**24,159,534**	46,555,098
Capital adequacy ratio (b/a x 100)	**23.16%**	32.27%

16 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise major shareholders, directors of the Bank, 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 Bank.

A significant portion of the Bank's income arises from transactions with related parties. Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arm's length basis.

Significant balances with related parties at 31 December comprise:

	2010	*2009*
	US$	*US$*
Assets		
Trading investments		
Grand Real Estate Projects Co.	**2,075,605**	5,411,638
Available-for-sale investments		
International Investment Group	**2,958**	3,431
Gulf Monetary Group	**31,936**	31,936
Takaful International - Bahrain	**7,771,808**	7,771,808
Gulf Monetary Group - Managed portfolio	**212,985**	208,986
Takaful International - Kuwait	**734,354**	720,568
International Projects Consultancy	**44,372**	43,539
Deferred payment sale receivables		
Gulf Monetary Group	**3,680,203**	3,680,203
Current account		
Grand Real Estate Projects Co.	**-**	6,043,576
	14,554,221	23,915,685
Liabilities		
Murabaha payables		
International Investment Group	**3,229,064**	3,229,064
Other Liabilities		
Takaful International - Bahrain	**19,149**	15,957
Key Management Personnel	**151,798**	240,254
	3,400,011	3,485,275
Restricted Investment Accounts	**16,106,466**	15,910,536

Significant transactions with related parties include:

	2010	*2009*
	US$	*US$*
Income		
Fair value losses on trading investments		
Grand Real Estate Projects Co.	**(3,336,033)**	(39,509)
Income from Mudaraba investment		
International Investment Group	**-**	63,680
Other income		
Gulf Monetary Group	**4,775**	-
Grand Real Estate Projects Co.	**5,305**	-
	(3,325,953)	24,171

16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Expenses		
Provision for impairment		
Grand Real Estate Projects Co.	**7,682,389**	1,706,897
International Investment Group	**4,502**	12,387,156
Gulf Monetary Group	-	3,423,829
Provision Write Back		
Other related party	-	(1,897,619)
Board of Directors		
Board of Directors	**20,696**	29,882
Shari'a Supervisory Board		
Shari'a Board	**30,070**	31,552
	7,737,657	15,681,697

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

	2010 ***US$***	*2009* *US$*
Salaries and other short-term benefits	**233,094**	496,927
Post employment benefits	**16,475**	31,397
	249,569	528,324

17 SHARI'A SUPERVISORY BOARD

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

18 RISK MANAGEMENT

The Bank is exposed to the credit risk, liquidity risk and market risk during the course of its business along with other operational risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee, which is responsible for developing and monitoring Bank's operations and policies across various functions including the risk management policies. The Executive Committee consists of three non-executive directors of the Bank along with the Chief Executive Officer ["CEO"] as an attendee. The Executive Committee reviews and approves the CEO's recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by outsourced Internal Audit function.

18 RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Bank's credit risk arises mainly from cash and balances with banks, deferred payment sale receivables and other assets.

The Bank manages it credit risk on cash and bank balances by placing funds with reputable banks having good credit ratings.

The Bank's maximum exposure to credit risk at 31 December was as follows:

	2010	*2009*
	US$	*US$*
Balances with banks	**410,118**	610,937
Deferred payment sale receivable	**3,680,203**	3,680,203
Other assets	**1,573,849**	7,542,099
Maximum exposure to credit risk	**5,664,170**	11,833,239

18 RISK MANAGEMENT (continued)

Credit risk (continued)

Analysis of Bank's exposure to credit risk:

	2010				
	Balances with bank US$	*Receivables from sale of investments US$*	*Deferred payment sale receivables US$*	*Other financial assets US$*	*Total US$*
Neither past due nor impaired	**410,118**	-	-	**31,144**	**441,262**
Past due but not impaired	-	-	**3,680,203**	**1,067,705**	**4,747,908**
Individually impaired					
Gross amount	-	**16,786,726**	-	**16,806,891**	**33,593,617**
Provision for impairment	-	**(16,786,726)**	-	**(16,331,891)**	**(33,118,617)**
Net	-	-	-	**475,000**	**475,000**
Total exposure to credit risk	**410,118**	-	**3,680,203**	**1,573,849**	**5,664,170**

	2009				
	Balances with bank US$	*Receivables from sale of investments US$*	*Deferred payment sale receivables US$*	*Other financial assets US$*	*Total US$*
Neither past due nor impaired	610,937	-	-	135,789	746,726
Past due but not impaired	-	-	3,680,203	887,733	4,567,936
Individually impaired					
Gross amount	-	16,786,726	-	15,168,078	31,954,804
Provision for impairment	-	(16,786,726)	-	(8,649,501)	(25,436,227)
Net	-	-	-	6,518,577	6,518,577
Total exposure to credit risk	610,937	-	3,680,203	7,542,099	11,833,239

The impairment provision created on impaired assets is based on the management's assessment of the expected realisations and considers the time value of the money. Specific impairment is identified by the Bank based on the various specific factors, which include financial health of the counterparty and expected cash flows.

18 RISK MANAGEMENT (continued)

Concentration risk

The Bank's assets and liabilities are distributed over the following industry sectors and geographical areas:

	2010			
	Banks and financial institutions US$	*Investment companies US$*	*Others US$*	*Total US$*
Assets				
Balances with banks	410,118	-	-	410,118
Investments	12,919,354	244,921	3,513,295	16,677,570
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	20,020,445	20,020,445
Other assets	900,996	-	693,226	1,594,222
Property and equipment	-	-	3,843,948	3,843,948
Total assets	14,230,468	3,925,124	28,070,914	46,226,506
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	19,149	-	446,035	465,184
Total liabilities	6,918,415	-	446,035	7,364,450
Restricted investment accounts	5,670,202	10,436,264	317,689	16,424,155

18 RISK MANAGEMENT (continued)

Concentration risk (continued)

	2009			
	Banks and financial institutions US$	*Investment companies US$*	*Others US$*	*Total US$*
Assets				
Balances with banks	610,937	-	-	610,937
Investments	19,878,026	672,456	7,118,692	27,669,174
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment properties	-	-	27,571,404	27,571,404
Other assets	900,996	-	6,723,916	7,624,912
Property and equipment	-	-	7,098,715	7,098,715
Total assets	21,389,959	4,352,659	48,512,727	74,255,345
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	15,957	-	433,094	449,051
Total liabilities	6,915,223	-	433,094	7,348,317
Restricted investment accounts	5,670,202	10,240,334	317,689	16,228,225

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2010 and 31 December 2009 are primarily concentrated in the Middle East region.

18 RISK MANAGEMENT (continued)

Maturity Profile

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual cash flows. The other balances have been presented based on expected cash flows:

	2010							
	Up to 1 month US$	*1 to 3 months US$*	*3 months to 1 year US$*	*Within 1 year US$*	*1 to 3 years US$*	*Over 3 years US$*	*No fixed maturity US$*	*Total US$*
Assets								
Cash and balances with banks	411,444	-	-	411,444	-	-	-	411,444
Investments	-	-	2,209,022	2,209,022	-	-	14,468,548	16,677,570
Deferred payment sale receivables	3,680,203	-		3,680,203	-	-	-	3,680,203
Investment properties	-	-	-	-	-	-	20,020,445	20,020,445
Other assets	-	-	7,110	7,110	31,144	-	1,555,968	1,594,222
Property and equipment	-	-	-	-	-	-	3,843,948	3,843,948
Total assets	4,091,647	-	2,216,132	6,307,779	31,144	-	39,888,909	46,227,832
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	92,272	155,557	168,729	416,558	-	-	48,626	465,184
Total liabilities	6,991,538	155,557	168,729	7,315,824	-	-	48,626	7,364,450
Cumulative Liquidity Gap	(2,899,891)	(3,055,448)	(1,008,045)	(1,008,045)	(976,901)	(976,901)	38,863,382	

18 RISK MANAGEMENT (continued)

Maturity Profile (continued)

	2009							
	Up to 1 month US$	*1 to 3 months US$*	*3 months to 1 year US$*	*Within 1 year US$*	*1 to 3 years US$*	*Over 3 years US$*	*No fixed maturity US$*	*Total US$*
Assets								
Cash and balances with banks	612,263	-	-	612,263	-	-	-	612,263
Investments	-	-	5,611,582	5,611,582	-	-	22,057,592	27,669,174
Deferred payment sale receivables	3,680,203	-		3,680,203	-	-	-	3,680,203
Investment properties	-	-	-	-	-	-	27,571,404	27,571,404
Other assets	-	10,038	59,512	69,550	134,292	1,499	7,419,571	7,624,912
Property and equipment	-	-	-	-	-	-	7,098,715	7,098,715
Total assets	4,292,466	10,038	5,671,094	9,973,598	134,292	1,499	64,147,282	74,256,671
Liabilities								
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	-	3,229,064
Other liabilities	31,804	101,148	132,007	264,959	-	-	184,092	449,051
Total liabilities	6,931,070	101,148	132,007	7,164,225	-	-	184,092	7,348,317
Cumulative Liquidity Gap	(2,638,604)	(2,729,714)	2,809,373	2,809,373	2,943,665	2,945,164	66,908,354	

18 RISK MANAGEMENT (continued)

Liquidity risk
Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

It is the Bank's policy to keep a significant part of its assets in the form of liquid assets such as trading and available-for-sale investments.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

	2010		
	Assets US$	***Liabilities US$***	***Net US$***
Kuwaiti Dinar	**4,587,029**	**-**	**4,587,029**

	2009		
	Assets US$	*Liabilities US$*	*Net US$*
Kuwaiti Dinar	13,273,011	-	13,273,011

Bahraini Dinar and United Arab Emirates Dirham are pegged with US Dollar.

Sensitivity Analysis:
The following table demonstrate the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income for balances as of 31 December:

	5% decrease		*5% increase*	
	2010	*2009*	***2010***	*2009*
Kuwaiti Dinar	**(229,351)**	(663,651)	**229,351**	663,651

Equity price risk
Equity price risk is the risk that Bank's quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has a few listed equity exposures in the trading book as well as the available-for-sale portfolio. The price movement of these exposures are monitored by the Bank on a daily basis.

The following table demonstrate the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income or equity based on the position as of 31 December:

18 RISK MANAGEMENT (continued)

Equity price risk (continued)

Sensitivity Analysis:

	20% decrease		*20% increase*	
	2010	*2009*	***2010***	*2009*
Particulars				
Trading investments	**(441,804)**	(1,122,316)	**441,804**	1,122,316
Available-for-sale investments	**(2,495,367)**	(4,016,900)	**2,495,367**	4,016,900

Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self Assessment, identification of Key Risk Indicators, preparation of operational loss database etc.

The operational risk framework will evolve with the changing needs of the Bank's businesses and regulatory guidance, taking into account internal and external operational risk events, business environment and internal control factors.

While individual units have direct responsibility for the control and mitigation of operational risk, the proposed framework provides a consistent methodology across the Bank. The Bank attempts to manage operational risk through appropriate controls, appropriate training to the employees, and internal checks and balances including internal audit and compliance.

The Bank 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$	*US$*
Average gross income	**21,936,210**	21,936,210
Operational risk weighted assets	**41,130,394**	41,130,394
Regulatory capital requirement (at 15%)	**3,290,432**	3,290,432

19 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US$ 3,670,202 (31 December 2009: 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain of its investments with a carrying value of US$ 2,778,466 as at 31 December 2010 (2009: 4,306,622). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of the Bank's investments.

As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court amounting to US$ 3,680,203 (2009: US$ 3,680,203). This amount is included under deferred payment sale receivables.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.

20 SEGMENTAL INFORMATION

The activities of the Bank are all related to investment banking activities. The Bank operates solely in the Kingdom of Bahrain and no geographic segment information has been presented.

21 SOCIAL RESPONSIBILITY

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