Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiary [together "the Group"] as of 31 December 2010, and the related consolidated statements of income, comprehensive 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.

Auditors' Responsibility

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 Board of Directors, 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 consolidated financial statements present fairly, in all material respects, the consolidated 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 Regulatory 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 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

1 February 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	***31 December 2010 BD '000***	*31 December 2009 BD '000*
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	5	**95,791**	126,739
Central Bank of Bahrain Sukuk		**68,632**	32,908
Murabaha receivables from banks	6	**137,299**	149,304
Corporate Sukuk		**61,724**	16,950
Murabaha and Mudaraba financing	7	**120,812**	87,274
Ijarah Muntahia Bittamleek	8	**69,825**	46,315
Musharaka financing		**8,127**	5,384
Assets under conversion	9	**57,432**	98,305
Non-trading investments	10	**212,432**	184,680
Investment in an associate	11	**7,578**	7,659
Investment properties		**3,373**	1,177
Receivables and prepayments	12	**12,479**	26,902
Premises and equipment		**1,859**	2,337
TOTAL ASSETS		**857,363**	785,934
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**101,300**	89,398
Wakala from non-banks		**456,447**	317,370
Customers' current accounts		**57,362**	32,700
Liabilities under conversion	9	**5,171**	120,402
Other liabilities	13	**15,993**	14,877
TOTAL LIABILITIES		**636,273**	574,747
UNRESTRICTED INVESTMENT ACCOUNTS	14	**18,465**	9,409
EQUITY			
Share capital	15	**149,706**	142,577
Reserves and retained earnings	15	**48,922**	41,356
Proposed appropriations	15	**-**	14,258
Total equity attributable to shareholders of the Bank		**198,628**	198,191
Non-controlling interest		**3,997**	3,587
TOTAL EQUITY		**202,625**	201,778
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**857,363**	785,934

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 1 February 2011.

Mohamed Ali Rashid Alabbar
Chairman

Yousif A. Taqi
Director and Chief Executive Officer

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Note	*31 December 2010 BD '000*	*31 December 2009 BD '000*
OPERATING INCOME			
Income from financing contracts		**26,135**	15,998
Income from investments designated as fair value through profit or loss		**1,089**	713
Gains on disposal of investments		**1,531**	11,782
Gains on investments designated as fair value through profit or loss		**7,608**	5,772
Fees and commissions	16	**2,145**	556
Foreign exchange gains		**839**	337
Other income		**2,954**	18
		42,301	35,176
Profit on Murabaha and Wakala payables to banks		**(617)**	(1,119)
Profit on Wakala from non-banks		**(14,674)**	(13,928)
Profit on unrestricted investment accounts		**(216)**	(155)
Depreciation on Ijarah Muntahia Bittamleek	8	**(4,430)**	(4,038)
Total operating income		**22,364**	15,936
OPERATING EXPENSES			
Staff costs		**7,023**	5,131
Premises and equipment cost		**1,144**	723
Depreciation		**1,133**	1,010
Other operating expenses		**4,255**	2,853
Total operating expenses		**13,555**	9,717
PROFIT BEFORE RESULTS OF ASSOCIATE / SUBSIDIARY		**8,809**	6,219
Gain arising on acquisition of a subsidiary		**-**	7,996
Share of gain (loss) from an associate	11	**15**	(255)
Post acquisition profit from the subsidiary		**-**	21
Shari'a prohibited income contributed to charity		**-**	(19)
NET PROFIT BEFORE PROVISIONS		**8,824**	13,962
Provision for impairment	7	**(1,508)**	-
NET PROFIT FOR THE YEAR		**7,316**	13,962
Attributable to:			
Equity holders of the Bank		**7,209**	13,960
Non-controlling interest		**107**	2
		7,316	13,962
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		**1,497,063,825**	1,360,825,581
BASIC AND DILUTED EARNINGS PER SHARE (FILS)		**5**	10

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	31 December 2010 BD '000	*31 December 2009 BD '000*
NET PROFIT FOR THE YEAR	**7,316**	13,962
Other comprehensive income:		
Net change in fair value	**856**	(367)
Exchange differences on investment in an associate	**(96)**	(99)
Other comprehensive income (loss) for the year	**760**	(466)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**8,076**	13,496
Attributable to:		
Equity holders of the Bank	**7,666**	13,480
Non-controlling interest	**410**	16
	8,076	13,496

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	31 December 2010 BD '000	*31 December 2009 BD '000*
OPERATING ACTIVITIES		
Net profit for the year	**7,316**	13,962
Adjustments:		
Depreciation	**1,133**	1,010
Gains on investments designated as fair value through profit or loss	**(7,608)**	(5,772)
Provision for impairment	**1,508**	-
Share of (gain)/loss from an associate	**(15)**	255
Operating income before changes in operating assets and liabilities	**2,334**	9,455
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank of Bahrain	**(1,600)**	(4,486)
Central Bank of Bahrain Sukuk	**(35,724)**	(1,813)
Murabaha receivables from banks with original maturities of 90 days or more	**(10,888)**	1,497
Corporate Sukuk	**(43,579)**	(17,457)
Murabaha and Mudaraba financing	**(35,046)**	(14,790)
Ijarah Muntahia Bittamleek	**(23,510)**	(4,784)
Musharaka financing	**(2,743)**	(5,384)
Assets under conversion	**41,304**	9,030
Non-trading investments, net	**(20,914)**	(1,208)
Receivables and prepayments	**14,423**	(12,473)
Assets held-for-sale	**-**	28,164
Murabaha and Wakala payables to banks	**11,902**	56,517
Wakala from non-banks	**119,130**	28,365
Customers' current accounts	**24,662**	(10,286)
Liabilities under conversion	**(95,284)**	(6,262)
Other liabilities	**1,016**	(460)
Net cash (used in) from operating activities	**(54,517)**	53,625
INVESTING ACTIVITIES		
Cash flow arising on acquisition of a subsidiary	**-**	58,092
Purchase of premises and equipment	**(655)**	(265)
Purchase of investment property	**(2,196)**	-
Net cash (used in) from investing activities	**(2,851)**	57,827
FINANCING ACTIVITIES		
Unrestricted investment accounts	**9,056**	3,039
Share issue expenses	**-**	(136)
Dividend	**(7,129)**	(12,000)
Net movement in non-controlling interest	**-**	(2)
Net cash from (used in) financing activities	**1,927**	(9,099)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(55,441)**	102,353
Cash and cash equivalents at 1 January	**258,557**	156,204
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**203,116**	258,557
Cash and cash equivalents comprise of:		
Cash and other balances with Central Bank of Bahrain	**73,945**	104,616
Balances with other banks (Note 5)	**2,879**	4,756
Murabaha receivables from banks with original maturities of less than 90 days	**126,292**	149,185
	203,116	258,557

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

Amounts in BD '000

	Attributable to equity holders of the Bank											
	Share capital	***Statutory reserve***	***Retained earnings***	***Investment reserve***	***Changes in fair value***	***Foreign exchange translation reserve***	***Share premium reserve***	***Total reserves***	***Proposed appropriations***	***Total***	***Non-controlling interest***	***Total equity***
Balance as of 1 January 2009	120,000	6,514	12,575	20,473	-	99	-	39,661	12,823	172,484	-	172,484
Non-controlling interest arising on acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	**3,571**	**3,571**
Total comprehensive income:												
Net profit for the year	-	-	13,960	-	-	-	-	13,960	-	13,960	2	13,962
Other Comprehensive income (loss):												
Net change in fair value	-	-	-	-	(381)	-	-	(381)	-	(381)	14	(367)
Changes on investment in an associate	-	-	-	-	-	(99)	-	(99)	-	(99)	-	(99)
Total comprehensive income (loss)	-	-	13,960	-	(381)	(99)	-	13,480	-	13,480	16	13,496
	120,000	6,514	26,535	20,473	(381)	-	-	53,141	12,823	185,964	3,587	189,551
Transfer to investment reserve	-	-	(5,772)	5,772	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	1,396	(1,396)	-	-	-	-	-	-	-	-	-
Zakah paid	-	-	-	-	-	-	-	-	(823)	(823)	-	(823)
Charitable donations	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Dividends paid for 2008	-	-	-	-	-	-	-	-	(12,000)	(12,000)	-	(12,000)
Proposed dividends for 2009	-	-	(14,258)	-	-	-	-	(14,258)	14,258	-	-	-
Shares issued (Notes 3 and 15.1)	22,577	-	-	-	-	-	2,709	2,709	-	25,286	-	25,286
Share issue expenses	-	-	-	-	-	-	(136)	(136)	-	(136)	-	(136)
Balance at 31 December 2009	142,577	7,910	5,009	26,245	(381)	-	2,573	41,356	14,258	198,191	3,587	201,778
Total comprehensive income:												
Net profit for the year	-	-	7,209	-	-	-	-	7,209	-	7,209	107	7,316
Other Comprehensive income (loss):												
Net change in fair value	-	-	-	-	553	-	-	553	-	553	303	856
Changes on investment in an associate	-	-	-	-	-	(96)	-	(96)	-	(96)	-	(96)
Total comprehensive income (loss)	-	-	7,209	-	553	(96)	-	7,666	-	7,666	410	8,076
	142,577	7,910	12,218	26,245	172	(96)	2,573	49,022	14,258	205,857	3,997	209,854
Transfer to investment reserve	-	-	(6,794)	6,794	-	-	-	-	-	-	-	-
Bonus shares issued	7,129	-	-	-	-	-	-	-	(7,129)	-	-	-
Transfer to statutory reserve	-	721	(721)	-	-	-	-	-	-	-	-	-
Charitable donations	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Dividends paid for 2009	-	-	-	-	-	-	-	-	(7,129)	(7,129)	-	(7,129)
Balance at 31 December 2010	**149,706**	**8,631**	**4,603**	**33,039**	**172**	**(96)**	**2,573**	**48,922**	**-**	**198,628**	**3,997**	**202,625**

1 INCORPORATION AND PRINCIPAL ACTIVITIES

The parent company, Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank in the Kingdom of Bahrain. BSB operates under a retail banking license issued by the Central Bank of Bahrain. BSB has applied for an Islamic retail banking license with the CBB and is awaiting approval. Subsequent to acquisition by the Bank, BSB has discontinued new conventional activities and the conversion into fully compliant Islamic operations is in progress.

The Bank and its subsidiary BSB (together known as "the Group") operate through eleven retail branches in the Kingdom of Bahrain. The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale investments and investment properties which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group. Investment in an associate, Al Salam Bank-Algeria is equity accounted as per Financial Accounting Standard (FAS) 24, Investment in Associates (Note 11).

These consolidated financial statements are presented in Bahraini dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. For matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 22.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the year ended 31 December 2010. The financial statements of the Bank’s subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies. Non-Shari'a compliant assets and liabilities of the subsidiary are consolidated as set out in Note 9.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of gaining control over the subsidiary.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Judgements are made in the classification of fair value through profit or loss, assets held for sale or held-to-maturity investments based on management's intention at acquisition of the financial asset. As fully described below, judgements are also made in determination of the objective evidence that a financial asset is impaired.

Classification of investments
Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on financial contracts
The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of available-for-sale equity investments
The Group treats available-for-sale equity 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. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Collective impairment provisions on financial contracts
In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Valuation of unquoted private equity and real estate investments
Valuation of above investments is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements, which are consistent with those of prior year [except for items disclosed in note 2.3 (ad)] are set out below:

a) Financial contracts
Financial contracts consist of balances with banks and the Central Bank of Bahrain, Central Bank of Bahrain Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

b) Corporate sukuk
These are quoted securities and classified as available-for-sale. These are initially recorded at fair value, being the consideration given and subsequently remeasured at fair value. Changes in fair value are recognized in the other comprehensive income until the investment is derecognised or the investment is determined to be impaired, upon which the cumulative fair value is transferred to consolidated income statement.

c) Murabaha financing
These mainly consist of deferred sales transactions and stated net of deferred profits, provision for impairment, if any, and amounts settled.

d) Mudaraba financing
These are stated at fair value of consideration given net of provision for impairment, if any, and amounts settled.

e) Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek assets comprises assets under lease, comprising aircraft, land and buildings, under terms that would transfer ownership of the assets to third parties at the end of the respective lease term.

Depreciation is provided on a straight-line basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either period of the lease or economic life of the asset.

f) Musharaka
These are initially stated at the fair value of the consideration given and subsequently remeasured at amortised cost less provision for impairment in value, if any.

g) Assets and liabilities under conversion
These represent assets and liabilities of BSB which are under conversion to Shari'a compliant products. These are initially measured at fair value at the date of acquisition and the subsequent measurement is as follows:

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Assets and liabilities under conversion (continued)

Assets under conversion:
Due from Banks and Loans and advances to customers:
At amortised cost less any amounts written off and provision for impairment, if any.

Investments:
These are classified as available-for-sale investments and are fair valued based on criteria set out in Note 2.3 h. Any changes in fair values subsequent to acquisition date are recognized in other comprehensive income.

Liabilities under conversion:
These are remeasured at amortised cost.

h) Non-trading investments
These are classified as held-to-maturity, available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as

Investments held-to-maturity
Investments which have fixed or determinable payments and fixed maturity which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value.

Investments available-for-sale
After initial recognition, investments which are classified “available-for-sale” are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. Fair value changes are reported in other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “changes in fair value” within equity, is included in the consolidated income statement.

Investments carried at fair value through profit or loss
Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "Gains on investments designated at fair value through profit or loss" in the consolidated income statement.

i) Investment reserve
Unrealised gains and losses resulting from revaluation of "investments carried at fair value through profit or loss" and "investment properties" recorded in the consolidated statement of income are appropriated to an investment reserve in equity and are not available for distribution to the shareholders. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investment in an associate

The Group's investments in its associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains/losses arising out of the above investment in the associate are included in the other comprehensive income.

k) Investment properties

Investment properties are those held to earn rentals and/or for capital appreciation. These are initially recorded at cost, including acquisition charges associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income as gain or loss in investment properties. The fair value of the investment properties is determined either based on valuations made by independent valuers or using internal models with consistent assumptions.

l) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware and software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	5 years
- Leasehold improvements	Over the lease period

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within 12 months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

n) Business Combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognised directly in the consolidated income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Gain on business combination, being the excess of the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of business acquisition is recognised as gain in the consolidated statement of income.

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.

o) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
(ii) for assets carried at fair value, impairment is the difference between cost and fair value; and
(iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a collective provision is made to cover impairment for specific assets where there is a measurable decrease in estimated future cash flows.

p) Offsetting

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) 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.

r) Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

s) Revenue recognition

Murabaha
As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Corporate sukuk
Income on Corporate sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

Mudaraba
Income on Mudaraba transactions are recognised when the right to receive is established or these are declared by the Mudarib, whichever is earlier.

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

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka
Income on Musharaka is recognized when the right to receive payment is established or on distributions.

Fees and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Revenue recognition (continued)

Fair value of financial assets
For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

t) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "available-for-sale" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

u) Trade and settlement date accounting
Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group purchases or sells the asset or liability.

v) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

w) Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

y) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are included in the equity and are disclosed as an event after the balance sheet date.

z) Unrestricted investment accounts (URIA)

All unrestricted investment accounts are carried at capital received plus profit earned less amounts paid. Income to unrestricted investment account holders is allocated, net of Mudarib fees, on the basis of their average daily balances in proportion to shareholders' daily average balances.

aa) Zakah

In accordance with the revised Articles of Association of the Bank, the responsibility to pay Zakah is on the shareholders of the Bank.

ab) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Central Bank of Bahrain and Murabaha receivables from banks with contractual maturities of less than 90 days.

ac) Going concern

The Group has made an assessment of the Group's ability to continue on a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

ad) Adoption of new and amended standards

Financial Accounting Standard No. 23 - Consolidation

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

Financial Accounting Standard No. 24 - Associates

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

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

ae) Wakala

The Group accepts deposits from customers under Wakala arrangement under which a return may be payable to customers. There is no restriction on the Group for the use of funds received under wakala agreement.

3 BUSINESS COMBINATION

During 2009, the Bank made an offer to acquire up to 100% of the issued and paid up shares of Bahraini Saudi Bank B.S.C. (BSB), a publicly listed commercial bank incorporated in the Kingdom of Bahrain, at an exchange ratio of one new share of the Bank for every two shares of BSB. The acquisition through share exchange was approved by the shareholders of the Bank in their Extraordinary General Assembly Meeting held on 4 May 2009. The Bank acquired 90.31% stake in BSB and issued 225,775,075 new shares of the Bank (Note 15.1). On 28 October 2009, the Board of BSB was reconstituted with three out of the five Board members of BSB representing the Bank gaining effective control over BSB.

4 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2010, financial instruments have been classified as follows:

	Financial assets at fair value through profit or loss	*Available for sale*	*Financial assets at cost / amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	-	**95,791**	**95,791**
Central Bank of Bahrain Sukuk	-	-	**68,632**	**68,632**
Murabaha receivables from banks	-	-	**137,299**	**137,299**
Corporate Sukuk	-	**61,724**	-	**61,724**
Murabaha and Mudaraba financing	-	-	**120,812**	**120,812**
Ijarah Muntahia Bittamleek	-	-	**69,825**	**69,825**
Musharaka financing	-	-	**8,127**	**8,127**
Assets under conversion	-	**8,803**	**48,629**	**57,432**
Non-trading investments	**199,335**	**13,097**	-	**212,432**
Receivables	-	-	**11,762**	**11,762**
	199,335	**83,624**	**560,877**	**843,836**

	Financial liabilities at fair value through profit or loss	*Available for sale*	*Financial liabilities at amortised cost*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS				
Murabaha and Wakala payables to banks	-	-	**101,300**	**101,300**
Wakala from non-banks	-	-	**456,447**	**456,447**
Customers' current accounts	-	-	**57,362**	**57,362**
Liabilities under conversion	-	-	**5,171**	**5,171**
Other financial liabilities	-	-	**12,697**	**12,697**
Unrestricted Investment Accounts	-	-	**18,465**	**18,465**
	-	-	**651,442**	**651,442**

4 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (continued)

As at 31 December 2009, financial instruments were classified as follows:

	Financial assets at fair value through profit or loss BD '000	*Available for sale BD '000*	*Financial assets at cost / amortised cost BD '000*	*Total BD '000*
ASSETS				
Cash and balances with Central Bank of Bahrain	-	-	126,739	126,739
Central Bank of Bahrain Sukuk	-	-	32,908	32,908
Murabaha receivables from banks	-	-	149,304	149,304
Corporate Sukuk	-	16,950	-	16,950
Murabaha and Mudaraba financing	-	-	87,274	87,274
Ijarah Muntahia Bittamleek	-	-	46,315	46,315
Musharaka financing	-	-	5,384	5,384
Assets under conversion	-	27,696	70,609	98,305
Non-trading investments	184,680	-	-	184,680
Receivables	-	-	26,214	26,214
	184,680	44,646	544,747	774,073

	Financial liabilities at fair value through profit or loss BD '000	*Available for sale BD '000*	*Financial liabilities at amortised cost BD '000*	*Total BD '000*
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS				
Murabaha and Wakala payables to banks	-	-	89,398	89,398
Wakala from non-banks	-	-	317,370	317,370
Customers' current accounts	-	-	32,700	32,700
Liabilities under conversion	-	-	120,402	120,402
Other financial liabilities	-	-	9,824	9,824
Unrestricted Investment Accounts	-	-	9,409	9,409
	-	-	579,103	579,103

5 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

	***2010* BD '000**	*2009 BD '000*
Mandatory reserve with Central Bank of Bahrain	**18,967**	17,367
Cash and other balances with Central Bank of Bahrain	**73,945**	104,616
Balances with other banks	**2,879**	4,756
	95,791	126,739

6 MURABAHA RECEIVABLES FROM BANKS

	Up to 3 months 2010 BD '000	*Up to 3 months 2009 BD '000*
GCC	**137,299**	149,304
	137,299	149,304

This includes certain Wakala receivables for investment in commodity Murabaha. Deferred profits on Murabaha receivables from banks amounted to BD 107,000 (2009: BD 58,000).

7 MURABAHA AND MUDARABA FINANCING

	2010	*2009*
	BD '000	*BD '000*
Murabaha financing - gross	**116,080**	87,274
Less: Provision for impairment	**(1,508)**	-
Murabaha financing - net	**114,572**	87,274
Mudaraba financing	**6,240**	-
Total Murabaha and Mudaraba financing	**120,812**	87,274

Murabaha financing are shown net of deferred profits of BD 23,480,000 (2009: BD 9,665,000).

8 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	2010	*2009*
	BD '000	*BD '000*
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	**46,315**	41,531
Additions during the year - net	**27,940**	8,822
Ijarah assets depreciation - net	**(4,430)**	(4,038)
At 31 December	**69,825**	46,315

	2010	*2009*
	BD '000	*BD '000*
The future minimum lease receivable in aggregate are as follows:		
Due within one year	**18,860**	17,184
Due in one to five years	**36,409**	22,179
Due after five years	**14,556**	6,952
	69,825	46,315

	2010	*2009*
	BD '000	*BD '000*
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Aviation	**3,114**	3,596
Machinery	**3,555**	3,973
Land and buildings	**63,156**	38,746
	69,825	46,315

The accumulated depreciation on assets subject to Ijarah Muntahia Bittamleek amounted to BD4,402,000 (2009:BD4,863,000).

9 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing assets and liabilities of BSB, a majority owned subsidiary of the Bank. At the consolidated statement of financial position date, the conversion of the subsidiary into a fully Islamic compliant operations is in progress, accordingly these assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of these assets and liabilities under conversion are as follows:

	2010	*2009*
	BD '000	*BD '000*
Assets		
Due from banks and financial institutions	**757**	6,839
Loans and advances to customers	**47,872**	63,770
Non-trading investments	**8,803**	27,696
	57,432	98,305
Liabilities		
Due to banks and financial institutions	**5,171**	20,912
Customers' deposits	**-**	99,490
	5,171	120,402

Loans and advances, included under assets under conversion above, are stated net of write down of BD 3,983,000 made by the Group against assets held by the Subsidiary at the time of acquisition. This write down comprise of BD 2,133,000 of specific adjustments against identified facilities and a general write down of BD 1,850,000 as fair value adjustments as required by IFRS 3, Business Combinations. The Subsidiary carries these assets at amortized cost, less impairment, as per its accounting policy for Loans and Receivables Originated by an enterprise. Included in the non-trading investments are certain investments against which the Group has taken a fair value write down amounting to BD330,000.

Income from financing contracts includes BD 4,963,000 arising from assets under conversion. Profit on Wakala from non-banks includes BD 1,557,000 arising from liabilities under conversion.

In addition to the above assets under conversion, the subsidiary has a conventional deposit of BD 14,655,000 with the Central Bank of Bahrain.

10 NON-TRADING INVESTMENTS

	2010	*2009*
	BD '000	*BD '000*
Quoted		
- Available for sale	**13,097**	-
- Fair value through profit or loss	**3,212**	4,342
Unquoted based on valuation techniques:		
- Fair value through profit or loss		
Market observable input	**149,683**	133,402
Non-market observable input	**46,440**	46,936
	212,432	184,680

Certain of these investments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the Group's best estimate of the most appropriate model inputs.

11 INVESTMENT IN AN ASSOCIATE

The Group has investment in an associate, Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The following table illustrates the summarised financial information of the Group's investment in ASBA:

	2010	*2009*
	BD '000	*BD '000*
Associate's statement of financial position:		
Total assets	**86,405**	69,692
Total liabilities	**38,792**	20,318
Net assets	**47,613**	49,374
Total revenue	**1,787**	1,077
Total expenses	**1,685**	2,842
Net gain/(loss) for the year	**102**	(1,765)
Group's share of associate's gain/(loss)	**15**	(255)

12 RECEIVABLES AND PREPAYMENTS

	2010	*2009*
	BD '000	*BD '000*
Profit receivable on Murabaha and Mudaraba	**1,807**	1,251
Rental receivable on Ijarah Muntahia Bittamleek assets	**683**	1,314
Profit receivable on Sukuk	**650**	263
Prepayments	**716**	688
Other receivables	**8,623**	23,386
	12,479	26,902

At 31 December 2009, the other receivables included BD 17,892,000 relating to sale of investments and majority of which was received during 2010.

13 OTHER LIABILITIES

	2010	*2009*
	BD '000	*BD '000*
Profit payable	**4,626**	3,198
Accounts payable and accruals	**7,029**	7,083
Dividends payable	**3,440**	3,805
End of service benefits	**669**	599
Charity payable	**229**	192
	15,993	14,877

Charity payable includes BD 8,000 (2009: BD 75,000) of Shari'a prohibited income allocated for charitable purposes.

14 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment account holders' funds are commingled with the Group's funds and used to fund / invest in Islamic modes of finance and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The return on joint invested assets and distribution to unrestricted investment account holders were as follows:

	2010	*2009*
	BD '000	*BD '000*
Gross return from commingled assets	**393**	307
Group's share as Mudarib	**(177)**	(152)
Distributions to unrestricted investment account holders	**216**	155

The average profit rate for the URIA holders is 1.00% (2009: 1.25%).

15 EQUITY

	2010	*2009*
	BD '000	*BD '000*
15.1 Share capital		
Authorised:		
2,000,000,000 ordinary shares of BD 0.100 each	**200,000**	200,000
Issued and fully paid at BD 0.100 per share:		
Balance at beginning - 1,425,775,075 (2009:1,200,000,000) shares	**142,577**	120,000
Issued during the year - 71,288,750 (2009: 225,775,075) shares	**7,129**	22,577
	149,706	142,577

Pursuant to a shareholders' resolution, during the year the Bank issued one bonus share for every twenty shares held. This amounted to 5% of the paid up capital resulting in an utilization of BD 7,129,000 from the retained earnings to this effect. During 2009, pursuant to a shareholders' resolution, the Bank raised its authorised capital from BD 120 million to BD 200 million and issued 225,775,075 ordinary shares of the Bank to those shareholders of BSB who accepted the offer (note 3). At the offer closing date, the market price of the Bank's shares was BD 0.112 each. This resulted in proceeds of BD 25,287,000 from the new issue, including a share premium of BD 0.012 per share aggregating to BD 2,709,000.

15.2 Statutory reserve

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

15.3 INVESTMENT RESERVE

During the year the net unrealized gain of BD 6,794,000 (2009: net unrealized gain of BD 5,772,000) was transferred from retained earnings to investment reserve. The reserve represents unrealised gains and losses from revaluation of investments and investment properties carried at fair value though profit or loss, and is not available for distribution under the Bank's policies until transferred back to retained earnings upon disposal of the assets and realisation of the gains.

16 FEES AND COMMISSIONS

	2010	*2009*
	BD '000	*BD '000*
Financing and transaction related fees and commissions	**1,269**	284
Fiduciary and other fees	**876**	272
	2,145	556

17 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Group. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 31 December 2010 were as follows:

	2010			
	Associates and joint ventures	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Assets:				
Murabaha and Mudaraba financing	**21,653**	**54**	**37**	**21,744**
Ijarah Muntahia Bittamleek	**15,068**	**3,114**	**175**	**18,357**
Musharaka financing	**7,830**	**-**	**89**	**7,919**
Assets under conversion	**-**	**-**	**21**	**21**
Receivables and prepayments	**3,260**	**8**	**6**	**3,274**
Liabilities and URIA:				
Wakala from non-banks	**3,451**	**1,297**	**125**	**4,873**
Customers' current accounts	**7,428**	**161**	**333**	**7,922**
Unrestricted investment accounts	**35**	**91**	**1,292**	**1,418**
Commitments	**4,310**	**-**	**-**	**4,310**
Contingent liabilities	**1,549**	**63**	**-**	**1,612**

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2010			
	Associates and joint ventures	***Directors and related entities***	***Senior management***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Income:				
Income from Islamic financing contracts	**2,945**	**150**	**17**	**3,112**
Expenses:				
Profit on Wakala from non-banks	**118**	**54**	**43**	**215**
Share of profits on unrestricted investment accounts	**3**	**1**	**1**	**5**

17 RELATED PARTY TRANSACTIONS (continued)

	2009			
	Associates and joint ventures BD '000	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:				
Murabaha and Mudaraba financing	9,540	28	67	9,635
Ijarah Muntahia Bittamleek	14,098	3,596	178	17,872
Musharaka financing	5,234	-	99	5,333
Assets under conversion	-	-	27	27
Receivables and prepayments	2,734	9	15	2,758
Liabilities and URIA:				
Wakala from non-banks	15,593	511	312	16,416
Customers' current accounts	7,012	257	35	7,304
Liabilities under conversion	-	-	1,017	1,017
Unrestricted investment accounts	116	65	62	243
Commitments	4,624	-	-	4,624
Contingent liabilities	11,402	56	-	11,458

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

Income:				
Income from other Islamic financing contracts	2,242	93	10	2,345
Expenses:				
Profit paid on Wakala from non-banks	281	34	14	329
Share of profits on unrestricted investment accounts	-	1	1	2

As of 31 December 2010, Murabaha and Mudaraba financing and Ijarah Muntahia Bittamleek included BD3,114,000 (2009: BD3,596,000) of facilities provided to directors and their associates which are past due and on which profit is not being recognised.

Directors are compensated in the form of fees for attending board and committee meetings. Directors' remuneration for the year ended 31 December 2010 amounted to nil (31 December 2009: BD 250,000).

Compensation of key management personnel, consisting solely of short-term benefits, for the year was BD1,695,000 (2009: BD2,182,000).

18 CONTINGENT LIABILITIES AND COMMITMENTS

The Group has the following commitments:

	2010	*2009*
	BD '000	*BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**6,773**	19,077
Letters of credit	**1,645**	1,675
Acceptances	**432**	409
	8,850	21,161
Irrevocable Unutilised commitments		
Unutilised financing commitments	**27,970**	13,473
Unutilised non-funded commitments	**7,583**	7,424
Unutilised capital commitments	**1,502**	5,681
	37,055	26,578
	45,905	47,739

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into a five-year operating lease for its premises. Future minimal rentals payable under the non-cancellable lease are as follows:

	2010	*2009*
	BD '000	*BD '000*
Within 1 year	**429**	665
After one year but not more than five years	**85**	86
	514	751

19 RISK MANAGEMENT

19.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to early settlement risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

19 RISK MANAGEMENT (continued)

19.1 Introduction (continued)

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Committee
The Executive Committee has the responsibility to monitor the overall risk process within the Group.

Shari'a Supervisory Board
The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Credit/ Risk Committee
Credit/ Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

Asset and Liability Committee
The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Board Audit Committee
The Audit Committee is appointed by the Board of Directors who are non-Executive Directors of the Bank. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit
Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

19 RISK MANAGEMENT (continued)

19.1 Introduction (continued)

Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Credit / Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the Chief Financial Officer and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

19.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

19 RISK MANAGEMENT (continued)

19.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure (excluding sovereign exposure) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2010 BD '000	*Gross maximum exposure 2009 BD '000*
ASSETS		
Balances with other banks	**2,879**	4,756
Murabaha receivables from banks	**137,299**	149,304
Corporate sukuk	**61,724**	16,950
Murabaha and Mudaraba financing	**100,642**	58,352
Ijarah Muntahia Bittamleek	**65,777**	42,342
Musharaka financing	**8,127**	5,384
Assets under conversion	**48,629**	77,972
Receivables	**9,399**	26,012
Total	**434,476**	381,072
Contingent liabilities and commitments	**33,652**	48,490
Total credit risk exposure	**468,128**	429,562

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk, Musharaka and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. The various financial instruments are:

Murabaha financing

The Bank arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in installments over the agreed period.

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah installments are settled.

19 RISK MANAGEMENT (continued)

19.2 Credit risk (continued)

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2010				
	Neither past due nor impaired			***Past due or individually impaired***	***Total***
	'A' Rated	***'B' Rated***	***Unrated***		
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Balances with banks	**2,604**	**36**	**239**	**-**	**2,879**
Murabaha receivables from banks	**84,853**	**15,084**	**37,362**	**-**	**137,299**
	87,457	**15,120**	**37,601**	**-**	**140,178**

	31 December 2009				
	Neither past due nor impaired			*Past due or individually impaired*	*Total*
	'A' Rated	*'B' Rated*	*Unrated*		
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balances with Banks	4,403	106	247	-	4,756
Murabaha receivables from banks	93,228	11,466	44,610	-	149,304
	97,631	11,572	44,857	-	154,060

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

b) The credit quality of Corporate sukuk, Murabaha and Mudaraba financing, Ijarah Muntahia Bittamleek, Musharaka financing, Assets under conversion and financing that are subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2010					
	Neither past due nor impaired					
	Satisfactory	***Watch List***	***Substandard but not impaired***	***Past due but not impaired***	***Impaired***	***Total***
		BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Corporate sukuk	**61,724**	**-**	**-**	**-**	**-**	**61,724**
Murabaha and Mudaraba financing	**86,476**	**1,958**	**-**	**9,260**	**2,948**	**100,642**
Ijarah Muntahia Bittamleek	**53,408**	**-**	**195**	**12,174**	**-**	**65,777**
Musharaka financing	**8,127**	**-**	**-**	**-**	**-**	**8,127**
Assets under conversion	**48,629**	**-**	**-**	**-**	**-**	**48,629**
Receivables	**11,276**	**41**	**-**	**-**	**-**	**11,317**
	269,640	**1,999**	**195**	**21,434**	**2,948**	**296,216**

19 RISK MANAGEMENT (continued)

19.2 Credit risk (continued)

	31 December 2009					
	Neither past due nor impaired					
	Satisfactory	*Watch List BD '000*	*Substandard but not impaired BD '000*	*Past due but not impaired BD '000*	*Impaired BD '000*	*Total BD '000*
Corporate sukuk	16,950	-	-	-	-	16,950
Murabaha and Mudaraba financing	37,512	7,539	-	13,301	-	58,352
Ijarah Muntahia Bittamleek	31,647	-	3,960	6,735	-	42,342
Musharaka financing	5,384	-	-	-	-	5,384
Assets under conversion	77,972	-	-	-	-	77,972
Receivables	26,012	-	-	-	-	26,012
	195,477	7,539	3,960	20,036	-	227,012

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

c) Past due but not impaired Murabaha and Mudaraba financing, and Ijarah Muntahia Bittamleek are analysed as follows:

	31 December 2010			
	0-30 days BD '000	***31-90 days BD '000***	***> 90 days BD '000***	***Total BD '000***
Murabaha and Mudaraba financing	**-**	**7,726**	**1,534**	**9,260**
Ijarah Muntahia Bittamleek	**-**	**61**	**12,113**	**12,174**
	-	**7,787**	**13,647**	**21,434**

	31 December 2009			
	0-30 days BD '000	*31-90 days BD '000*	*> 90 days BD '000*	*Total BD '000*
Murabaha and Mudaraba financing	1,741	4,610	6,951	13,302
Ijarah Muntahia Bittamleek	1,724	692	4,318	6,734
	3,465	5,302	11,269	20,036

All the past due but not impaired Murabaha and Mudaraba financing and Ijarah financing are covered by collateral of BD 29,933,000 (2009: BD 42,035,000). A provision of BD 1,508,000 has been taken against the past due but not impaired facilities.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers disclosed in Note 18 except capital commitments.

During the year BD 22,148,000 (2009: BD 9,520,000) of financing facilities to individuals were renegotiated. All renegotiated facilities are performing and are fully secured.

At 31 December 2010, the amount of credit exposure in excess of 15% of the Group's regulatory capital to individual counterparties was nil (2009: nil).

19 RISK MANAGEMENT (continued)

19.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimized.

As at 31 December 2010, legal suits amounting to BD 1,686,000 (2009: BD 1,681,000) were pending against the Group. Based on the opinion of the Group’s legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

20 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographic location. The Group manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and unrestricted investment accounts by geographic region and industry sector was as follows:

	Assets	***Liabilities, unrestricted investment accounts and equity***	***Contingent liabilities and Commitments***	*Assets*	*Liabilities, unrestricted investment accounts and equity*	*Commitments*
	2010	***2010***	***2010***	*2009*	*2009*	*2009*
	BD '000	***BD '000***	***BD '000***	*BD '000*	*BD '000*	*BD '000*
Geographic region						
GCC	**778,449**	**644,613**	**43,494**	718,881	560,809	32,550
Arab World	**7,584**	**3,855**	**64**	9,566	2,791	-
Europe	**12,088**	**3,265**	**-**	23,087	11,642	48
Asia	**49,907**	**2,737**	**2,861**	27,106	8,734	12,347
America	**6,990**	**268**	**-**	2,274	180	-
Others	**2,345**	**-**	**-**	5,020	-	3,545
	857,363	**654,738**	**46,419**	785,934	584,156	48,490
Equity	**-**	**202,625**	**-**	-	201,778	-
	857,363	**857,363**	**46,419**	785,934	785,934	48,490

20 CONCENTRATIONS (continued)

	Assets 2010 BD '000	Liabilities, unrestricted investment accounts and equity 2010 BD '000	Contingent liabilities and Commitments 2010 BD '000	Assets 2009 BD '000	Liabilities, unrestricted investment accounts and equity 2009 BD '000	Commitments 2009 BD '000
Industry sector						
Trading and manufacturing	**12,158**	**22,726**	**5,436**	10,419	15,798	16,627
Banks and financial institutions	**208,260**	**142,136**	**211**	257,170	143,697	344
Real estate	**221,884**	**102,717**	**11,732**	188,082	60,406	23,332
Aviation	**12,872**	**29**	**-**	10,373	9	-
Individuals	**49,611**	**232,667**	**2,499**	45,769	206,898	1,726
Government and public sector	**228,176**	**86,357**	**24,071**	127,925	87,211	-
Others	**124,402**	**68,106**	**2,470**	146,196	70,137	6,461
	857,363	**654,738**	**46,419**	785,934	584,156	48,490
Equity	**-**	**202,625**	**-**	-	201,778	-
	857,363	**857,363**	**46,419**	785,934	785,934	48,490

21 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Group.

21.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and available for sale investments) solely due to reasonably possible changes in equity prices, is as follows:

	2010			
	10% increase		***10% decrease***	
	Effect on net profit BD '000	***Effect on Comprehensive income BD '000***	***Effect on net profit BD '000***	***Effect on Comprehensive income BD '000***
Quoted:				
GCC	**321**	**667**	**(321)**	**(667)**
Asia	**-**	**805**	**-**	**(805)**
Unquoted	**19,612**	**173**	**(19,612)**	**(173)**

21 MARKET RISK (continued)

21.1 Equity price risk (continued)

	2009			
	10% increase		*10% decrease*	
	Effect on net profit BD '000	*Effect on Comprehensive income BD '000*	*Effect on net profit BD '000*	*Effect on Comprehensive income BD '000*
Quoted:				
GCC	434	173	(434)	(173)
Unquoted	18,034	1,515	(18,034)	(1,515)

Assets under conversion (Note 9) include quoted equities of BD 1,632,000 (2009: BD 1,727,000) and unquoted equities of BD 1,733,000 (2009: BD 15,146,000). In determining the effect of price volatility on above, equity positions included in assets under conversion have been considered.

21.2 Profit return risk

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO).

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2010			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
US dollars	**0.25**	**246**	**(0.25)**	**(246)**
Bahraini dinars	**0.25**	**483**	**(0.25)**	**(483)**
Sterling pounds	**0.25**	**25**	**(0.25)**	**(25)**

	2009			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
US dollars	0.25	180	(0.25)	(180)
Bahraini dinars	0.25	344	(0.25)	(344)

In addition to profit rate bearing financing contracts considered in arriving at the effect on net profits, the assets under conversion includes BD52,150,000 (2009: BD81,088,000) financial assets and BD5,171,000 (2009: BD120,001,000) of financial liabilities which are interest bearing. The Group is in the process of converting these into Shari'a compliant contracts. If all the interest bearing assets and liabilities were converted into Shari'a complaint contracts on 1 January 2011, the change in profit rate by 0.25% would result in a profit or loss of BD117,000.

21 MARKET RISK (continued)

21.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Group's Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahrain dinars or US dollars. The Group had the following significant net long positions in foreign currencies as of 31 December :

	2010	*2009*
	BD '000	*BD '000*
US dollars	**24,268**	10,402
Saudi riyals	**48,003**	55,802
Singapore dollars	**8,123**	28

The effect on income solely due to reasonably possible immediate and sustained changes in exchange rates is as follows:

	2010			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
US dollars to Bahraini dinars	**1**	**243**	**(1)**	**(243)**
Saudi riyals to Bahraini dinars	**1**	**480**	**(1)**	**(480)**
Singapore dollars to Bahraini dinars	**1**	**81**	**(1)**	**(81)**

	2009			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
US dollars to Bahraini dinars	1	104	(1)	(104)
Saudi riyals to Bahraini dinars	1	558	(1)	(558)
Singapore dollars to Bahraini dinars	1	-	(1)	-

22 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily marketable securities. Liquidity position is monitored on an ongoing basis by the Group's Asset Liability Committee.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2010 and 2009:

	31 December 2010				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	**76,824**	**-**	**18,967**	**-**	**95,791**
Central Bank of Bahrain Sukuk	**20,230**	**14,510**	**33,892**	**-**	**68,632**
Murabaha receivables from banks	**137,299**	**-**	**-**	**-**	**137,299**
Corporate Sukuk	**-**	**-**	**61,724**	**-**	**61,724**
Murabaha and Mudaraba financing	**25,016**	**35,513**	**50,901**	**9,382**	**120,812**
Ijarah Muntahia Bittamleek	**8,330**	**10,530**	**36,409**	**14,556**	**69,825**
Musharaka financing	**5,853**	**2,044**	**190**	**40**	**8,127**
Assets under conversion	**14,047**	**43,385**	**-**	**-**	**57,432**
Non-trading investments	**-**	**13,097**	**199,335**	**-**	**212,432**
Investment in an associate	**-**	**-**	**7,578**	**-**	**7,578**
Investment properties	**-**	**-**	**-**	**3,373**	**3,373**
Receivables and prepayments	**11,394**	**1,085**	**-**	**-**	**12,479**
Premises and equipment	**-**	**-**	**1,859**	**-**	**1,859**
	298,993	**120,164**	**410,855**	**27,351**	**857,363**
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha and Wakala payables to banks	**-**	**-**	**101,300**	**-**	**101,300**
Wakala from non-banks	**-**	**296,807**	**159,640**	**-**	**456,447**
Customers' current accounts	**57,362**	**-**	**-**	**-**	**57,362**
Liabilities under conversion	**5,171**	**-**	**-**	**-**	**5,171**
Other liabilities	**13,411**	**1,838**	**744**	**-**	**15,993**
Unrestricted investment accounts	**-**	**-**	**18,465**	**-**	**18,465**
	75,944	**298,645**	**280,149**	**-**	**654,738**

22 LIQUIDITY RISK (continued)

	31 December 2009				
	Up to 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	109,372	-	17,367	-	126,739
Central Bank of Bahrain Sukuk	-	32,908	-	-	32,908
Murabaha receivables from banks	149,304	-	-	-	149,304
Corporate Sukuk	-	-	16,950	-	16,950
Murabaha and Mudaraba financing	20,097	14,665	52,512	-	87,274
Ijarah Muntahia Bittamleek	7,063	10,121	22,179	6,952	46,315
Musharaka financing	5	16	5,363	-	5,384
Assets under conversion	30,901	17,156	50,248	-	98,305
Non-trading investments	-	-	184,680	-	184,680
Investment in an associate	-	-	7,659	-	7,659
Investment properties	-	-	-	1,177	1,177
Receivables and prepayments	25,233	1,130	539	-	26,902
Premises and equipment	-	-	2,337	-	2,337
	341,975	75,996	359,834	8,129	785,934
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS					
Murabaha and Wakala payables to banks	-	-	89,398	-	89,398
Wakala from non-banks	-	47,882	269,488	-	317,370
Customers' current accounts	32,700	-	-	-	32,700
Liabilities under conversion	87,810	14,120	18,472	-	120,402
Other liabilities	13,512	1,097	268	-	14,877
Unrestricted investment accounts	-	-	9,409	-	9,409
	134,022	63,099	387,035	-	584,156

22 LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December, 2010 and 2009 based on contractual undiscounted payment obligation:

	31 December 2010					
	On demand BD '000	***Up to 3 months BD '000***	***3 months to 1 year BD '000***	***1 to 5 years BD '000***	***Over 5 years BD '000***	***Total BD '000***
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	**-**	**100,810**	**490**	**-**	**-**	**101,300**
Wakala from non-banks	**-**	**296,807**	**140,251**	**19,389**	**-**	**456,447**
Customers' current accounts	**57,362**	**-**	**-**	**-**	**-**	**57,362**
Liabilities under conversion	**-**	**5,171**	**-**	**-**	**-**	**5,171**
Unrestricted investment accounts	**-**	**18,465**	**-**	**-**	**-**	**18,465**
Unutilised financing commitments	**12,560**	**2,513**	**1,641**	**5,749**	**13,090**	**35,553**
Unutilised capital commitments	**-**	**-**	**-**	**1,502**	**-**	**1,502**
Contingent liabilities	**1,191**	**2,277**	**4,888**	**494**	**-**	**8,850**
Other financial liabilities	**-**	**11,583**	**1,114**	**-**	**-**	**12,697**
Profit due on financing contracts	**-**	**1,743**	**3,442**	**2,288**	**-**	**7,473**
	71,113	**439,369**	**151,826**	**29,422**	**13,090**	**704,820**

	31 December 2009					
	On demand BD '000	*Up to 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	-	89,398	-	-	-	89,398
Wakala from non-banks	-	250,850	47,882	18,638	-	317,370
Customers' current accounts	32,700	-	-	-	-	32,700
Liabilities under conversion	-	87,810	14,120	18,472	-	120,402
Unrestricted investment accounts	-	9,409	-	-	-	9,409
Unutilised financing commitments	13,749	-	3,052	4,097	-	20,898
Unutilised capital commitments	-	-	3,545	2,136	-	5,681
Contingent liabilities	19,119	538	1,504	-	-	21,161
Other financial liabilities	-	9,592	436	599	-	10,627
Profit due on financing contracts	-	986	2,168	2,882	-	6,036
	65,568	448,583	72,707	46,824	-	633,682

23 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	- principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	- principally handling Shari'a-compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	- principally the Banks' proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	- manages the undeployed capital of the bank by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the year ended 31 December 2010 was as follows:

	31 December 2010				
	Banking BD '000	***Treasury BD '000***	***Investments BD '000***	***Capital BD '000***	***Total BD '000***
Operating income	**11,854**	**2,890**	**5,108**	**2,527**	**22,379**
Segment result	**3,855**	**1,866**	**2,070**	**(475)**	**7,316**
Other information					
Segment assets	**195,713**	**325,087**	**249,994**	**86,569**	**857,363**
Segment liabilities, and equity	**517,737**	**120,985**	**8,318**	**210,323**	**857,363**

	31 December 2009				
	Banking BD '000	*Treasury BD '000*	*Investments BD '000*	*Capital BD '000*	*Total BD '000*
Operating income	7,887	2,500	5,583	7,709	23,679
Segment result	4,101	1,493	2,709	5,659	13,962
Other information					
Segment assets	208,248	336,171	171,962	69,553	785,934
Segment liabilities, and equity	471,409	103,403	984	210,138	785,934

23 SEGMENT INFORMATION (continued)

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

24 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 48,137,000 (2009: BD 60,706,000). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

25 SHARI'A SUPERVISORY BOARD

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

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their carrying values as at 31 December 2010 and 2009.

27 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Bank received income totaling BD 8,000 (2009: BD 56,000) from conventional financial institutions on current account balances during the year. These funds were held as payable to charity as they are in the nature of Shari'a prohibited income.

28 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to the good faith qard fund which is used for charitable purposes. During the year the Group paid an amount of BD213,000 (2009: BD915,000) on account of charitable donations.

29 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2010 has been determined by the Shari'a supervisory board as 3.5 fils (2009: 3.8 fils) per share.

Pursuant to the Shari'a Supervisory Board's directive, the prohibited income earned from the subsidiary's operations should be purified by the Group from the date of conversion. Since the Subsidiary's operations are not fully compliant with Shari'a Rules and Principles, the prohibited income has been calculated and disclosed (Note 9). The Shareholders should purify the amount of prohibited income attributable to each share by donating the relevant amounts of such prohibited income to charity. The prohibited income to be donated by each shareholder for 2010 has been determined by the Shari'a Supervisory Board as 2.06 fils per share.

30 CAPITAL ADEQUACY

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Grouping Supervision and adopted by the Central Bank of Bahrain. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the years ended 31 December 2010 and 31 December 2009.

The risk assets ratio calculations, in accordance with the 'Basel II' capital adequacy guidelines of the Central Bank of Bahrain are as follows:

	2010	*2009*
	BD '000	*BD '000*
Capital base (Tier 1)	**172,773**	179,564
Credit risk weighted exposures	**631,566**	555,389
Market risk weighted exposures	**9,700**	2,950
Operational risk weighted exposures	**58,372**	68,803
Total risk weighted exposure	**699,638**	627,142
Capital adequacy	**24.7%**	28.6%
Minimum requirement	**12.0%**	12.0%