

Capital Management House B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAPITAL MANAGEMENT HOUSE B.S.C. (c)

We have audited the accompanying statement of financial position of Capital Management House B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") as of 31 December 2010, and the related consolidated statements of income, cash flows changes in equity and a summary of significant accounting policies and other explanatory information for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the 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 the AAOIFI.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CAPITAL MANAGEMENT HOUSE B.S.C. (c) (Continued)**

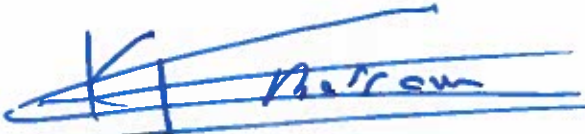
We confirm that, in our opinion, proper accounting records have been kept by the Group and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of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

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

14 February 2011
Manama, Kingdom of Bahrain

Capital Management House B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Notes	2010 USD'000	2009 USD'000
ASSETS			
Cash and bank balances	3	894	2,364
Due from financial institutions	4	37,006	10,501
Investments	5	115,034	131,875
Non-current assets held for sale	7	1,614	-
Fixed assets	8	1,337	1,867
Other assets	9	961	991
TOTAL ASSETS		156,846	147,598
EQUITY AND LIABILITIES			
Liabilities			
Due to financial institutions	10	39,258	23,059
Customers current account	11	34	465
Other liabilities	12	944	596
Total liabilities		40,236	24,120
Equity			
Share capital	13	100,568	100,000
Share premium		17,912	17,579
Reserves		(1,870)	5,899
Total equity attributable to shareholder of parent		116,610	123,478
TOTAL LIABILITIES AND EQUITY		156,846	147,598
RESTRICTED INVESTMENT ACCOUNT		107,220	105,178
COMMITMENTS AND CONTINGENT LIABILITIES	17	13,324	5,868


Khalid Abdulla Al Bassam
Chairman


Khalid Mohamed Najibi
Managing Director and CEO

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

Capital Management House B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2010

	Notes	2010 USD'000	2009 USD'000 Restated
INCOME			
Income from Islamic financing	14	736	1,453
Income from investments	15	1,963	1,868
(Loss) gain on sale of investments		(1,154)	4,176
Placement, arranging and underwriting fees		7	3,876
Foreign exchange gain (loss)		63	(43)
Fair value (loss) gain on Investment property		(381)	381
Fair value gain on investments carried at fair value through through profit or loss		-	96
Total income		1,234	11,807
EXPENSES			
Profit paid on Islamic financing		412	475
Staff costs		3,210	3,206
General and administrative costs	16	2,331	3,164
Total expenses		5,953	6,845
NET (LOSS)/PROFIT FOR THE YEAR BEFORE PROVISIONS		(4,719)	4,962
Impairment provision	6	(4,453)	(3,281)
Collective provision	5	(800)	(600)
NET (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDER OF THE PARENT		(9,972)	1,081

The attached explanatory notes 1 to 28 form part of these financial statements.

Capital Management House B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	2010 USD'000	2009 USD'000
OPERATING ACTIVITIES		
(Loss) Income for the year	(9,972)	1,081
Adjustments for:		
Depreciation	553	566
Amortisation of HTM gain	(39)	-
Fair value gain on investments carried at fair value through profit and loss	-	(96)
Fair value loss (gain) on investment property	381	(381)
Impairment losses on available-for-sale investments	4,453	1,781
Impairment losses on murabaha receivables	-	1,500
Collective impairment provision	800	600
Share grant reserve	209	1,061
Loss (gain) on sale of investments	1,154	(4,176)
Operating (loss) profit before changes in operating assets and liabilities	<u>(2,461)</u>	1,936
Working capital adjustments:		
Due from financial institutions with original maturities of more than 90 days	-	(2,000)
Other assets	30	5,289
Due to financial institutions	16,199	13,362
Customers current account	(431)	425
Other liabilities	348	(1,725)
Net cash from operating activities	<u>13,685</u>	17,287
INVESTING ACTIVITIES		
Purchase of investments	(17,605)	(97,785)
Investment in non-current assets held for sale	(1,614)	-
Proceeds from sale of investments	30,592	42,201
Purchase of fixed assets	(23)	(574)
Net cash from (used in) investing activities	<u>11,350</u>	(56,158)
FINANCING ACTIVITIES		
Proceeds of MIP shares issued	901	-
Proceeds from share grant reserve	(901)	-
Net cash from financing activities	<u>-</u>	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,035	(38,871)
Cash and cash equivalents at 1 January	<u>12,365</u>	51,236
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>37,400</u>	<u>12,365</u>
Cash and cash equivalents comprise of:		
Cash and bank balances	894	2,364
Due from financial institutions with original maturities of less than 90 days	36,506	10,001
	<u>37,400</u>	<u>12,365</u>

The attached explanatory notes 1 to 28 form part of these financial statements.

Capital Management House B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Treasury and unallocated shares	Share premium	Statutory reserve	General reserves	Cumulative changes in fair values	Retained earnings	Share grant reserve	Total reserve	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Balance at 1 January 2010	100,000	-	17,579	2,180	563	1,467	629	1,060	5,899	123,478
Share issue to MIP Subsidiary	5,000	(5,000)	-	-	-	-	-	-	-	-
Shares issued to eligible employees under MIP	-	568	333	-	-	-	-	(901)	(901)	-
Net loss for the year	-	-	-	-	-	-	(9,972)	-	(9,972)	(9,972)
Fair value gain on available-for-sale investments	-	-	-	-	-	2,892	-	-	2,892	2,892
Fair value loss on investment property	-	-	-	-	-	(381)	381	-	-	-
Share grant charge for year (net)	-	-	-	-	-	-	-	212	212	212
Balance at 31 December 2010	105,000	(4,432)	17,912	2,180	563	3,978	(8,962)	371	(1,870)	116,610

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

Capital Management House B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital USD '000	Share premium USD '000	Statutory reserve USD '000	General reserves USD '000	changes in fair values reserve USD '000	Retained earnings USD '000	Share Grant reserve USD '000	Proposed dividend USD '000	Total reserve USD '000	Total USD '000
Balance at 1 January 2009	91,381	17,579	2,072	563	8,495	133	-	8,619	19,882	128,842
Stock dividends paid during year	8,619	-	-	-	-	-	-	(8,619)	(8,619)	-
Net income for the year	-	-	-	-	1,081	1,081	-	-	1,081	1,081
Transfer to statutory reserve	-	-	108	-	-	(108)	-	-	-	-
Fair value loss on available-for-sale investments	-	-	-	-	(7,505)	-	-	-	(7,505)	(7,505)
Fair value gain on investment designated at fair value through statement of income	-	-	-	-	96	(96)	-	-	-	-
Fair value gain on investment property	-	-	-	-	381	(381)	-	-	-	-
Share Grant reserve	-	-	-	-	-	-	1,060	-	1,060	1,060
Balance at 31 December 2009	100,000	17,579	2,180	563	1,467	629	1,060	-	5,899	123,478

As at 31 December 2010

1 INCORPORATION AND ACTIVITIES

Capital Management House B.S.C.(c) ("the Bank") was incorporated in the Kingdom of Bahrain in accordance with and subject to the provisions of the Bahrain Commercial Companies Law, Decree no (21) of 2001 and its Implementation Regulations issued as per Ministerial Order No (6) of 2002 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 61045 on 15 May 2006. Until 7 October 2009 the Bank operated under an Investment Firm (Category I) License issued by the Central Bank of Bahrain ("CBB") and with effect from 7 October 2009, CBB upgraded its license to a "Wholesale Islamic Bank". The Bank's registered office is at Office 81, Building B1, Road 365, Block 316, Bahrain World Trade Center, Manama Center, Kingdom of Bahrain. The principle activities of the Bank includes:

- Short term investments;
- Capital market: Sukuk securities, equity linked offering, initial public offering and rights issues;
- Advisory services: Mergers and acquisitions, private placement, divestures and real estate developments;
- Asset management; and
- Islamic deposit products and unrestricted accounts to customers.

The activities of the Bank and its wholly owned subsidiaries (together the "Group") are to carry out operations in accordance with the teachings of Islam (Shari'ah). The Group's Shari'ah Supervisory Board is entrusted to ensure the Group's adherence to Shari'ah rules and principles in its transactions and activities.

The consolidated financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, investments carried at fair value through profit and loss, investment property and non-current assets held for sale which have been measured at fair value. The consolidated financial statements have been presented in US Dollars, being the functional currency of the Bank and all values are rounded to the nearest thousand, except when otherwise indicated.

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, CBB and Financial Institutions Laws. For matters, which are not covered by AAOIFI, the Group adopts the relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continue to be consolidated until the date such control ceases. 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 financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gain and losses resulting from intra-group transactions and dividends are eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**c. Basis of preparation (continued)**

Special Purpose Vehicles (SPVs) for holding investments which are intended to be marketed within twelve months from their acquisition to portfolio customers are not consolidated in the financial statements and are presented as "Non-current assets held for sale".

As at 31 December 2010 the Bank has the following subsidiaries:

	Subsidiary	Activities/Status	Year of incorporation	Country of incorporation	Ownership %
(A)	Tamkeen Investment Company B.S.C. (c) ("Tamkeen")	Subsidiary to administer Management Incentive Program ("MIP").	2008	Kingdom of Bahrain	100
(B)	Suffun Bahrain W.L.L. ("Suffun")	SPV for an associated company investment.	2010	Kingdom of Bahrain	100
(C)	Suffun Investment company. ("Suffun 1")	SPV for Investors investment in an associated company.	2010	Cayman Island	100
(D)	GCC Balanced Growth Fund Company B.S.C.(c) ("GCC fund")	SPV for GCC Balanced Growth Fund.	2010	Kingdom of Bahrain	100
(E)	Triple Seven Aviation Capital Ltd. ("Triple Seven")	SPV for investment in an associated company.	2010	Commonwealth Bahamas	97

As at 31 December 2010, the above subsidiaries are operational and have been consolidated or Included as "Non current assets held for sale" (note 2 (f)).

d. Cash and cash equivalents

Cash and cash equivalents as referred to in statement of cash flows comprise cash on hand, balances with banks and amount due from financial institutions with original maturities of 90 days or less.

e. Due from financial institutions*Murabaha receivables*

Murabaha receivables consist mainly of sales transaction agreements and are stated net of deferred profits and provision for impairment.

Mudaraba investments

Mudaraba investments are stated at the fair value of consideration given net of impairment.

Wakala investment

Balances related to wakala are stated net of impairment.

f. Investments

The investments are classified either as 'available-for-sale through equity', 'investments carried at fair value through statement of income', 'held to maturity' or investment property.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Investments (continued)

Available-for-sale investments through equity

Subsequent to initial recognition, these investments are re-measured at fair value with unrealised gains or losses recognised directly in equity under "Cumulative changes in fair values reserve", until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in equity is recognised in the consolidated statement of income.

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. 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 "Fair value gain (loss) on investments carried at fair value through profit or loss" in the consolidated income statement.

Held to maturity

Investments which have fixed or determinable payments that the Bank has both the intent and ability to hold to maturity are classified as held-to-maturity. Such investments are carried at amortised cost, less provision for impairment in value.

Amortised cost is calculated by taking into account any premium or discount on acquisition and is included in the consolidated statement of income. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Non-current assets held for sale

A subsidiary acquired with a view to subsequent disposal within 12 months are 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. Any impairment loss is recognised in the consolidated income statement for any initial and subsequent write down of these assets to fair value, less costs to sell. A gain for any subsequent increase in the fair value, less costs to sell, is recognised to the extent that it is not in excess of the cumulative impairment loss that was recognised.

Investment property

Property held for rental, or for capital appreciation purposes, or both is classified as investment property. Investment property are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment property are measured at fair value and changes in fair value are recognised in the consolidated statement of income. The fair value of the investment property is determined either based on valuations made by independent valuer(s) or using internal models with consistent assumptions.

g. Fixed assets

Fixed assets are initially recorded at cost. Fixed assets comprise of equipment, vehicles and other including (Banking softwares) Depreciation and amortization are recorded on a straight-line basis on all assets over its expected useful life. The estimated useful lives of the assets for the calculation of depreciation and amortization are as follows:

Equipment and vehicles	4 - 5 years
Others	3 - 5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Fair value of financial instruments

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the balance sheet date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Bank using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost or at a previously revalued amount, less provision for any impairment.

i. Provisions

Provisions are recognised when there is 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.

j. Murabaha payables

All Murabaha payables are carried at cost plus accrued profit less amounts repaid.

k. Dividends

Dividend to shareholders is recognised as liability when it is approved by the shareholders.

l. Revenue recognition

Income from Murabaha receivables

Profit from Murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are ninety days overdue is suspended until it is received in cash.

Income from Mudaraba investment

Income on Mudaraba investments is recognised when the right to receive payment is established or on distribution by the Mudarib.

Dividends

Dividends is recognised when the right to receive the payment is established.

Placement, arranging and underwriting fees

These comprise of fees for structuring, arranging and underwriting deals. Structuring and arranging fee is recognised by reference to percentage of completion method, measured by reference to the percentage of cost incurred to date to estimated total cost. Placement and underwriting fees are recognised when earned.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Derecognition of financial assets and liabilities

Financial assets

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

- (i) the right to receive cash flows from the asset have expired;
- (ii) the Bank has transferred its rights to receive cash flows from the assets and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- (iii) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

Financial liabilities

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

n. 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" 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.

o. Islamic derivative

The Bank uses a Shari'ah compliant forward promise to purchase currencies instruments ("the instrument") to manage its exposures to changes in foreign exchange rate.

At inception of the relationship, the Bank formally documents the relationship between the promise to purchase currency instruments and the investment made in foreign currency (resulting in foreign currency exposure), including the nature of the risk, the objective and strategy for undertaking the transaction.

Also at the inception of the relationship, a formal assessment is undertaken to ensure the instrument is expected to be highly effective in offsetting the designated risk in the underlying foreign currency exposure. The fair value of the instrument is assessed periodically and is regarded as highly effective if the changes in fair value or cash flows attributable to the risk during the period for which the instrument is designated are expected to offset in a range of 80% to 125%.

The gain or loss on the foreign exchange revaluation of the instrument is included on either the assets or liability side of the consolidated balance sheet dependent on whether the valuation is positive or negative respectively and offsets the gain or loss on the foreign exchange revaluation of the underlying foreign currency exposures.

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as available-for-sale through equity or investment carried at fair value through statement of income.

Impairment of available for sale investments

The Bank 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. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 30% or more and 'prolonged' greater than six months. In addition, the Bank evaluates other factors, such as the price volatility.

Impairment of financial assets

An assessment is made at each balance sheet 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 income statement. Impairment is determined as follows:

- (i) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement.
- (ii) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (iii) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Collective impairment provisions

In addition to a specific provision against individual significant assets, the Bank also considers need for a collective impairment provisions for a portfolio of assets which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of provision is adjusted to reflect the current economic changes.

Employees end of service benefits

The Bank 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 national employees, the Bank contributions to General Organisation for Social Insurance calculated as percentage of the employee's salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Share based payment transactions

Eligible employees are granted shares under the (MIP) of the Bank which are classified as equity-settled share-based payment transactions under IFRS 2.

The expense of the equity-settled share-based payment transactions is recognised in the consolidated statement of income over the vesting period with a corresponding increase in equity, based on the best estimate of the number of equity instruments expected to vest. The income statement charges or credit for a year is recorded in "Staff costs" and represents the movement in cumulative expenses recognized as at the beginning and end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**p. Judgments and estimates (continued)***Share based payment transactions (continued)*

The unallocated portion of shares to eligible employees will be held by Tamkeen and deducted as treasury shares from equity.

The expense of the cash appreciation units is recognised in the consolidated statement of income over the vesting period and the charge or credit for the period is recorded in "Staff costs".

q. Zakah

The responsibility of payment of zakah is on individual shareholders of the Bank.

r. Restricted investment accounts

Restricted investment accounts represent funds received by the Bank to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary capacity by the Bank for which the Bank earns mudarib fee are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these assets.

s. Treasury shares

Treasury shares are stated at cost with any gains and losses on sale recognised under share premium in the consolidated statement of equity.

t. Offsetting

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

3 CASH AND BANK BALANCES

	2010	2009
	USD'000	USD'000
Cash on hand	1	1
Bank balances	893	2,363
	894	2,364

4 DUE FROM FINANCIAL INSTITUTIONS

	2010	2009
	USD'000	USD'000
Commodity murabaha receivables	17,752	4,001
Mudaraba investments	12,755	8,000
Wakala investments	7,999	-
	38,506	12,001
Less: Provision against commodity murabaha receivable	(1,500)	(1,500)
	37,006	10,501

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

5 INVESTMENTS

	2010 USD'000	2009 USD'000
Available-for-sale investments through equity		
Quoted securities	9,332	10,823
Unquoted securities	63,167	59,348
Quoted Sukuk	6,872	17,907
Unquoted Sukuk	5,000	9,346
Musharaka Investment	3,629	4,812
	88,000	102,236
Less Impairment provisions	(7,831)	(3,378)
Total	80,169	98,858
Held to maturity investments		
Quoted sukuk:		
Cost	1,673	-
Add: Amortization	39	-
Total	1,712	-
Investment carried at fair value through profit or loss		
Unquoted Securities	29,147	27,830
Investment property	5,406	5,787
Total	116,434	132,475
Less collective provisions	(1,400)	(600)
Total investments	115,034	131,875

6 PROVISIONS

	2010			2009		
	Commodity Murabaha USD'000	Available for sale investments through equity USD'000	Total USD'000	Commodity Murabaha USD'000	Available for sale investments through Equity USD'000	Total USD'000
At 1 January	1,500	3,378	4,878	-	1,597	1,597
Charge for the year	-	4,453	4,453	1,500	1,781	3,281
At 31 December	1,500	7,831	9,331	1,500	3,378	4,878

7 NON-CURRENT ASSETS HELD FOR SALE

	2010 USD'000	2009 USD'000
Suffun Investments W.L.L	1,326	-
Triple Seven Aviation Capital Limited	288	-
	1,614	-

The Bank's total commitment under Suffun Investment W.L.L. is USD 12,732 thousands of which 10.42% has been contributed and the balance USD 11,406 thousands is included under uncalled capital commitment. (Note 17)

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

8 FIXED ASSETS

	<i>Equipment and vehicles USD'000</i>	<i>Others USD'000</i>	<i>Work-in Progress USD'000</i>	2010 Total USD'000	2009 Total USD'000
Cost:					
At 1 January	1,860	1,009	75	2,944	2,423
Additions	17	-	7	24	602
Disposals	(13)	-	-	(13)	(82)
At 31 December	1,864	1,009	82	2,955	2,943
Depreciation:					
At 1 January	602	475	-	1,077	563
Charge for the year	351	202	-	553	566
Disposals	(12)	-	-	(12)	(53)
At 31 December	941	677	-	1,618	1,076
Net book value: As at 31 December	923	332	82	1,337	1,867

9 OTHER ASSETS

	2010 USD'000	2009 USD'000
Accrued income	192	491
Fee receivable	-	200
Prepaid expenses	194	158
Project expenses receivable	470	49
Others	105	93
	961	991

10 DUE TO FINANCIAL INSTITUTIONS

	2010 USD'000	2009 USD'000
Murabaha payable	27,758	13,059
Wakala payable	11,500	10,000
	39,258	23,059

11 Customer Current Account

	2010 USD'000	2009 USD'000
Investee company current accounts	4	425
Portfolio Cash balances	30	40
	34	465

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

12 OTHER LIABILITIES

	2010 USD'000	2009 USD'000
Staff related accruals	517	331
Accrued expenses	406	231
Others	21	34
	944	596

13 EQUITY

	2010 USD'000	2009 USD'000
(i) <i>Share capital</i>		
Authorised 200,000,000 Ordinary shares of USD 1 each	200,000	200,000
<i>Issued and fully paid up</i>		
At beginning of Year (100,000,000 Ordinary shares of USD 1 each)	100,000	91,381
<i>Issued during year:</i>		
5,000,000 Ordinary shares of USD 1 each issued to Tamkeen for award under Management Incentive Program (MIP) (Note-13 (vii))	5,000	
8,619,583 Ordinary shares of USD 1 each issued as Stock dividend		8,619
	105,000	100,000
Less: unallocated shares under MIP	(4,432)	-
At 31 December 2010	100,568	100,000

4,431,892 represents shares unallocated under MIP and have been reduced as from share capital as " treasury and unallocated shares under MIP' in the consolidated statement of changes in equity.

(ii) *Proposed dividend*

No dividends were proposed for the year 2010 and 2009. US\$ 8,619 thousand represents stock dividend proposed in 2008 and paid in 2009.

(iii) *Share premium*

Amount received in excess of the par value of the issued share capital (net of issue costs) are treated as share premium. The amount is not available for distribution, but can be utilized in accordance with the requirement of Bahrain Commercial Companies Law.

The shares vesting to employees under MIP are issued at fair value and the related share premium are included under Share premium. The associated share premium for year 2010 is USD 333 thousands (2009: USD nil).

(iv) *Statutory reserve*

In accordance with Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net consolidated income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

(v) *Cumulative changes in fair value reserve*

The investment fair value reserve represents net unrealized fair value gains on investments designated as "Available for sale through equity", "Investments carried at fair value through profit and loss" and "Investment property".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

13 EQUITY (continued)*(vi) General reserve*

Transfer to the general reserve is made based on the recommendation of the Board of Directors and approval at the Annual General Meeting.

(vii) Share Grant reserve

On 27 March 2008, the Group set up a "Management Incentive Program" (MIP) and incorporated Tamkeen to administer the program. The shareholders have authorised the issue of 15 million shares (maximum) under this program. The employees under this program are entitled to incentive comprising of cash and equity awards for each financial year based on achievement of performance parameters. The equity awards vest to the benefit of employees subject to the satisfaction of additional service conditions.

During the year the Bank issued 5,000,000 shares (refer note 13 above) and transferred during the year 568,108 shares as vested shares to employees applicable to year 2008 to 2010 out of the total 1,066,241 shares which were awarded during 2008 (vesting period 2008-2012). The balance of 4,431,892 shares are included as 'Treasury and unallocated shares under MIP' in the consolidated statement of equity.

14 INCOME FROM ISLAMIC FINANCES

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Income from Mudaraba investments	176	1,217
Income from Murabaha receivables	387	141
Income from Wakala	173	95
	<u>736</u>	<u>1,453</u>

15 INCOME FROM INVESTMENTS

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Income from investments in securities	436	1,266
Income from Sukuks	1,182	602
Income from Musharaka investments	345	-
	<u>1,963</u>	<u>1,868</u>

16 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Amortisation and Depreciation	553	566
Office rent and utilities	477	386
Professional and legal fees	379	509
Travel expenses	211	392
Subscription and Reuters	103	114
Printing and stationery	77	72
Business development expenses	70	47
Telephone and courier	65	96
Training expenses	32	48
Project expenses written off	27	626
Insurance expenses	21	12
Other expenses	316	296
	<u>2,331</u>	<u>3,164</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

17 COMMITMENTS AND CONTINGENT LIABILITIES***Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Bank's customers.

Commitments represent contractual commitments under Murabaha receivables. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash flow requirements.

The Bank has the following credit related commitments.

	2010 USD'000	2009 USD'000
Uncalled capital commitments in respect of investments	11,785	1,064
Promise to purchase foreign currency commitment	461	3,373
Commitment related to project developments	133	133
	<u>12,379</u>	<u>4,570</u>

The Bank has commitments relating premises lease rentals as follows:

	2010 USD'000	2009 USD'000
Within one year	324	324
After one year but not more than five years	621	945
	<u>945</u>	<u>1,269</u>

Ijarah Muntahia Biltamleek commitments

The Bank has entered into Ijarah Muntahia Biltamleek for vehicles. These leases had an expected useful life of 4 years and there are no payments due as at 31 December 2010.

	2010 USD'000	2009 USD'000
Within one year	-	29
	<u>-</u>	<u>29</u>
Total commitments and contingent liabilities	<u>13,324</u>	<u>5,868</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

18 RELATED PARTY TRANSACTIONS

Related parties comprise shareholders, directors of the Group, 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 Bank nominates representatives in the board of the investee companies and the transactions with these investee companies are separately disclosed below. All the financing contracts with related parties are performing, are free of any provision for possible impairment. The transaction with these related parties were made on commercial terms.

Balances with related parties included in the consolidated statement of financial position are as follows:

	2010	2009
	USD'000	USD'000
Cash and bank balances	317	1,347
Due from financial institutions	9,001	2,000
Investments in related parties	19,163	18,719
Investments with nominee directors	32,664	21,282
Due to financial institutions	21,500	10,000
Commitments and contingent liabilities	11,785	1,064

The transactions with related parties included in the consolidated statement of income are as follows:

	31 December	31 December
	2010	2009
	USD'000	USD'000
Income from Islamic finances	25	423
Placement, arranging and underwriting fees	-	3,700
Income from investment	58	600
Profit payable on Islamic finances	(213)	(261)
General and administrative costs	(103)	(100)

Compensation of the Directors and key management personnel are as follows:

	2010	2009
	USD'000	USD'000
Short term employee benefits	1,175	1,172
Long term employee benefits	209	390

19 CREDIT RISK***Type of credit risk***

Contracts entered into by the Bank primarily comprise of Murabaha receivables, Mudaraba investments and Wakala.

Murabaha receivables

These are basically sales on deferred terms.

The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to the Murabeh (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period.

Mudaraba investments

Mudaraba investments is a partnership where the Bank ("Rabbalmaal") gives money to another ("Mudarib") for investing in a commercial enterprise for a definite period of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

19 CREDIT RISK (continued)***Risk management***

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 Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or Banks of customers in specific locations or businesses.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank to make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to financing contracts and these are mitigated by the same control processes and policies.

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

	<i>Gross maximum exposure 2010 USD 000</i>	<i>Gross maximum exposure 2009 USD 000</i>
Cash and bank balances	894	2,364
Due from financial institutions	37,006	10,501
Investments	115,034	131,875
Non-current assets held for sale	1,614	-
Other assets	961	991
Total	<u>155,509</u>	<u>145,731</u>
Credit commitments and contingent liabilities	13,324	5,868
Total credit risk exposure	<u><u>168,833</u></u>	<u><u>151,599</u></u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

19 CREDIT RISK (continued)

CONCENTRATIONS OF ASSETS, LIABILITIES, AND COMMITMENTS AND CONTINGENT LIABILITIES

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to two counterparties as of 31 December 2010 was USD 37,930 thousands (2009: USD 19,640 thousand) before taking account of collateral.

The distribution by geographic region and industry sector as of 31 December was as follows:

	Assets USD '000		Liabilities USD '000		Commitments and contingent liabilities USD '000	
	2010	2009	2010	2009	2010	2009
Geographical region						
North America	704	2,637	-	-	-	-
Europe	8,218	8,535	7,758	8,059	461	3,373
Middle East - GCC	128,794	116,169	32,474	15,636	12,484	1,431
Africa	19,129	20,256	4	425	379	1,064
Asia	1	1	-	-	-	-
	156,846	147,598	40,236	24,120	13,324	5,868
Industry sector						
Trading and manufacturing	22,145	21,313	4	425	379	1,064
Banks and financial institutions	67,983	50,731	39,977	23,076	461	3,373
Others	66,718	75,554	255	619	12,484	1,431
	156,846	147,598	40,236	24,120	13,324	5,868

The credit quality of financial assets is managed by the Bank assigning a rating as Good, Watch, Sub-standard, Doubtful and Past due or individually impaired.

Good

Credit exposures in this category are normal credit risks which show no sign of actual or potential default and it is unlikely that the Bank will sustain a loss.

Watch

Credit exposures in this category show no sign of actual or potential default. However certain minor unsatisfactory aspects to the exposure justify more than normal attention.

Sub-standard

In this category normal repayment is in jeopardy and there exists well defined weaknesses in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral.

Doubtful

Full repayment is questionable in this grade. Serious problems exist to the point where a partial loss of principal is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable.

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

19 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

Loss - Individually impaired

Total loss is expected, however in management's opinion recovery is a possibility, and hence write off should be deferred.

Credit quality per class of assets as at 31 December 2010

	<i>Good</i> 2010 USD 000	<i>Watch</i> 2010 USD 000	<i>Past due or individually impaired</i> 2010 USD 000	<i>Total</i> 2010 USD 000
Investments	99,686	9,145	6,203	115,034
Non current assets held for sale	1,614	-	-	1,614
Due from financial institutions	36,506	-	500	37,006
Cash and bank balances	894	-	-	894
Total	138,700	9,145	6,703	154,548

Individually impaired assets

The Group designated six investments as individually impaired with an aggregate cost of USD 14,434 thousands and has provided an aggregate of USD 8,231 thousands as impairment provisions as at 31 December 2010.

Commodity Murabaha aggregating to USD 2,000 thousands has been considered impaired as the contract is under default and has ceased to pay the contractual profits and principal repayment. The Group has provided an impairment provision of USD 1,500 thousand as at 31 December 2010.

Credit quality per class of assets as at 31 December 2009

	<i>Good</i> 2009 USD 000	<i>Watch</i> 2009 USD 000	<i>Past due or individually impaired</i> 2009 USD 000	<i>Total</i> 2009 USD 000
Investments	113,536	16,306	2,033	131,875
Due from financial institutions	10,001	-	500	10,501
Cash and bank balances	2,364	-	-	2,364
Total	125,901	16,306	2,533	144,740

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

20 LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Bank is targeting to build a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and commodity Murabahas. Liquidity position is monitored on an ongoing basis by the Bank's Asset Liability Committee.

Liquid assets consist of cash and bank balances and due from financial institutions. The ratios during the year were as follows:

	2010	2009
	%	%
31 December	25.0	8.6
During the year		
Average	18.1	26.8
Highest	25.1	39.6
Lowest	9.9	5.5

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidate statement of financial position to the contractual maturity date and the availability of liquid funds. Liquidity is also established by easy marketability of investments.

The maturity profile of assets, liabilities and equity at 31 December 2010 was as follows:

	<i>Up to</i> <i>1 month</i>	<i>1 to 3</i> <i>months</i>	<i>3 to 6</i> <i>months</i>	<i>6 months</i> <i>to 1 year</i>	<i>1 to 3</i> <i>years</i>	<i>Over</i> <i>3 years</i>	<i>Total</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
ASSETS							
Cash and bank balances	894	-	-	-	-	-	894
Due from financial institutions	25,006	11,500	-	-	-	500	37,006
Investments	103	3,670	7,317	4,146	35,887	63,911	115,034
Non-current assets held for sale	-	-	-	-	-	1,614	1,614
Fixed assets	-	-	-	-	-	1,337	1,337
Other assets	3	513	445	-	-	-	961
Total assets	26,006	15,683	7,762	4,146	35,887	67,362	156,846
LIABILITIES AND EQUITY							
Due to financial institutions	14,755	24,503	-	-	-	-	39,258
Due to non financial customers	34	-	-	-	-	-	34
Other liabilities	702	242	-	-	-	-	944
Equity	-	-	-	-	-	116,610	116,610
Total liabilities and equity	15,491	24,745	-	-	-	116,610	156,846
Liquidity gap	10,515	(9,062)	7,762	4,146	35,887	(49,248)	-
Cumulative liquidity gap	10,515	1,453	9,215	13,361	49,248	-	-

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

20 LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities and equity at 31 December 2009 was as follows:

	Up to 1 month USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	Total USD'000
ASSETS							
Cash and bank balances	2,364	-	-	-	-	-	2,364
Due from financial institutions	7,996	2,005	-	-	-	500	10,501
Investments	-	6,754	2,000	26,206	65,895	31,021	131,876
Fixed assets	-	-	-	-	-	1,867	1,867
Other assets	560	181	249	-	-	-	990
Total assets	10,920	8,940	2,249	26,206	65,895	33,388	147,598
LIABILITIES AND EQUITY							
Due to financial institutions	10,054	13,005	-	-	-	-	23,059
Due to non financial customers	465	-	-	-	-	-	465
Other liabilities	596	-	-	-	-	-	596
Equity	-	-	-	-	-	123,478	123,478
Total liabilities and equity	11,115	13,005	-	-	-	123,478	147,598
Liquidity gap	(195)	(4,065)	2,249	26,206	65,895	(90,090)	-
Cumulative liquidity gap	(195)	(4,260)	(2,011)	24,195	90,090	-	-

The maturity profile of credit commitment and contingent liabilities at 31 December 2010 was as

	Up to 1 month USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	Total USD'000
Credit Commitments							
Foreign Exchange commitment	461	-	-	-	-	-	461
Other commitments	27	187	81	162	621	-	1,078
Total assets	488	6,269	5,784	162	621	-	13,324

The maturity profile of credit commitment and contingent liabilities at 31 December 2009 was as follows:

	Up to 1 month USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	Total USD'000
Credit Commitments							
Foreign Exchange commitment	3,373	-	-	-	-	-	3,373
Other commitments	29	193	90	174	945	-	1,431
Total assets	3,402	1,257	90	174	945	-	5,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

21 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The Bank 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 Bank.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant.

The effect of decreases in basis points is expected to be equal and opposite to the effect of the increases in basis point as presented below.

	2010 USD'000	Change rate %	Effect on net income for the year USD'000
ASSETS			
Due from financial institutions - Murabaha, Mudaraba & Wakala	37,006	1	370
Investments - sukuks	15,000	1	150
Liabilities			
Due to financial institutions - Murabaha	39,258	1	(393)
Total			127

	2009 USD'000	Change in rate %	Effect on net income for the year USD'000
ASSETS			
Due from financial institutions - Murabaha, Mudaraba & Wakala	10,501	1	105
Investments - sukuks	25,000	1	250
Liabilities			
Due to financial institutions - Murabaha	23,059	1	(231)
Total			124

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency positions are monitored on daily basis to ensure positions are maintained within established limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

21 MARKET RISK (continued)**Non - Monetary assets**

	2010 USD'000	2009 USD'000
Investments in GBP (Non- monetary) which are covered by Foreign currency "promise to purchase currency contracts "	461	3,373

These forward purchase commitments are included under commitments and contingent liabilities (Note no 16).

Equity risk

Equity price risk arises from the change in the fair value of the listed equity instruments. The Bank has investments of USD 6,842 thousands (2009: USD 10,054 thousands) the fair value of which are determined through closing listed prices in the respective stock exchanges.

The effect on income as a result of a change in the fair value of equity instruments at 31 December 2010 due to a reasonably possible change (i.e. 5%) in the value of individual investments, with all other variables held constant is USD 342 thousands. (2009: USD 503 thousands).

Monetary assets

The table below indicate the currencies to which the Bank had significant exposure at 31 December 2010 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown below:

	Change in currency rate %	Effect on profit 2010 USD'000	Effect on equity 2010 USD'000	Effect on profit 2009 USD'000	Effect on equity 2010 USD'000
GBP	+ 5%	-	23	20	189

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Bank is not exposed to any significant prepayment risk.

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank can not expect to eliminate all operational risks, but through a control frame work and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures.

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

22 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks inherent in business. The adequacy of the Bank' capital is monitored using, among other measures, the rules and ratios adopted by Central Bank of Bahrain in supervising the Bank.

The primary objective of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, and maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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

	2010 USD'000	2009 USD'000
Regulatory Capital		
Tier 1 Capital	105,662	118,149
Tier 2 Capital	-	396
	<u>105,662</u>	<u>118,545</u>
Risk based capital requirement	<u>338,788</u>	<u>314,117</u>
Capital adequacy ratio	<u>31%</u>	<u>38%</u>
Minimum requirement	<u>12%</u>	<u>12%</u>

23 SEGMENTAL INFORMATION

Primary Segment Information

The activities of the Group are performed on an integrated basis and for management purposes, the group is organized into four business segments:

Venture and private equity:	Principally the Bank's proprietary portfolio and serving clients with a range of Venture and Private Equity Investments. These investments are primarily held for medium to long term and producing Capital gains on exits.
Asset Backed investment:	Principally the Bank's proprietary portfolio and serving clients with a range of Investments which are Asset Backed These investments are primarily held for medium to long term and producing both recurring income during the period of investments and Capital gains on exits.
Real Estate:	Principally the Bank's proprietary portfolio and serving clients with a range of Investments which have Real Estate as underlying assets. These investments are primarily held for medium to long term and producing both recurring income during the period of investments and Capital gains on exits. However quoted sukuks which are real estate backed are excluded from this segment.
Banking:	Principally managing Shari'a compliant profit sharing investment accounts, Shari'a compliant financing contracts, quoted securities and sukuks which are liquid. These investment are managed as part of treasury management with primary focus on liquidity. These investments are primarily held for short term and producing both recurring income during the period of investments and marginal Capital gains on exits of sukuks.

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

23 SEGMENTAL INFORMATION (continued)

Year ended 31 December

Sector	Venture capital & Private equity USD'000	Asset backed investments USD'000	Real Estate USD'000	Banking USD'000	Others USD'000	Total USD'000
Segment Income	58	360	(142)	958	-	1,234
Segment expenses						
Profit payable	-	(92)	-	(320)	-	(412)
Allocated operating expenses	(1,346)	(778)	(1,154)	(1,710)	-	(4,988)
Unallocated expenses	-	-	-	-	(553)	(553)
Impairment and collective provisions	(1,366)	(1,767)	-	(1,720)	(400)	(5,253)
Total Segment expenses	(2,712)	(2,637)	(1,154)	(3,750)	(953)	(11,206)
Segment results	(2,654)	(2,277)	(1,296)	(2,792)	(953)	(9,972)
Segment assets	41,702	24,546	35,975	53,326	1,297	156,846
Segment Liabilities and share capital	-	7,758	-	32,478	116,610	156,846

Year ended 31 December 2009

Sector	Venture capital & Private equity USD'000	Asset backed investments USD'000	Real Estate USD'000	Banking USD'000	Others USD'000	Total USD'000
Segment Income	756	4,188	2,586	4,277	-	11,807
Segment expenses						
Profit payable	-	(64)	-	(411)	-	(475)
Allocated operating expenses	(1,728)	(1,035)	(1,411)	(1,630)	-	(5,804)
Unallocated expenses	-	-	-	-	(566)	(566)
Impairment and collective provisions	-	(1,738)	-	(1,500)	(600)	(3,838)
Total Segment expenses	(1,728)	(2,837)	(1,411)	(3,541)	(1,166)	(10,683)
Segment results	(972)	1,351	1,175	736	(1,166)	1,124
Segment assets	43,261	25,908	35,347	40,825	2,257	147,598
Segment Liabilities and share capital	-	8,058	-	16,062	123,478	147,598

Secondary segment information

The Group primarily operated in the Gulf Co-operation Council ("GCC") and Middle-east and North Africa ("MENA") region and derives substantially all its operating income and incurs all operating expenses in the GCC and MENA region.

Capital Management House B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

24 RESTRICTED INVESTMENT ACCOUNT

	Units of Restricted Investment Portfolio					Total USD '000
	Cash	Marketable Equity Securities Portfolio	Unlisted Securities Portfolio	Real Estate Portfolio	Sukuks Portfolio	
	USD '000	USD '000	USD '000	USD '000	USD '000	
Investment at 1 January 2010	465	3,884	49,187	49,644	1,998	105,178
Deposits and issues	1,469	2,293	2,250	-	-	6,012
Repurchased investment units and withdrawal	-	(1,246)	-	-	(51)	(1,297)
Investment profit (losses)	-	121	-	-	51	172
Administrative expenditures	-	7	-	-	-	7
Bank's fees as an agent	-	-	-	-	-	-
Fair valuation and FX Revaluation	-	(1,786)	(1,066)	-	-	(2,852)
Investment at end of 31 December 2010	1,934	3,273	50,371	49,644	1,998	107,220
Investment at 1 January 2009	41	115	46,263	49,366	2,996	98,781
Deposits and issues	424	4,901	4,478	277	-	10,080
Repurchased investment units and withdrawal	-	(16)	(446)	-	(1,130)	(1,592)
Investment profit (losses)	-	-	446	-	130	576
Administrative expenditures	-	7	-	-	-	7
Bank's fees as an agent	-	8	-	-	-	8
Fair valuation and FX Revaluation	-	(1,131)	(1,554)	1	2	(2,682)
Investment at end of 31 December 2009	465	3,884	49,187	49,644	1,998	105,178

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Bank's financial instruments are not significantly different from their book values as at the consolidated statement of financial position other than unquoted equity shares as reported in note 6.

26 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Bank received an income of USD 3 thousands on an investment which was non Shari'a compliant as at 31 December 2010 and has been allocated to charity in accordance with Sharia'a principles.

27 SHARI'AH SUPERVISORY BOARD

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

28 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported net income, total assets, total liabilities and equity of the Bank previously reported.