

Capital Management House BSC(c)
Annual Report 2010

energy to succeed



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

فَلْيَتَّقُوا اللَّهَ الْعَلِيمَ الَّذِي عَالِمُ السُّرُورِ فَتَعْلَمُونَ

(١٣٥) الْأَنْعَامُ

صِدْقُ اللَّهِ الْعَظِيمِ



H.R.H. Prince Khalifa bin
Salman Al-Khalifa

The Prime Minister



H.M. King Hamad
bin Isa Al-Khalifa

The King of Bahrain



H.R.H. Prince Salman bin
Hamad Al-Khalifa

The Crown Prince
and Deputy Supreme
Commander of Bahrain
Defence Force

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Vision To become the Gulf Cooperation Councils' most innovative and credible Shari'ah compliant investment bank. **Mission** To originate unique investment opportunities and offer creative financial solutions in a professional and transparent manner.

Capital Management House BSC(c) ("CMH" or "Bank") is a wholesale Islamic investment bank licensed and regulated by the Central Bank of Bahrain (CBB). A team of investment professionals provide clients with Shari'ah compliant financial solutions based on their requirements. The Bank is engaged in five core business areas which include private equity, real estate, asset management, investment banking advisory and capital markets.

Clients include government agencies, financial institutions, corporations, family offices and high net-worth individuals across the Gulf Cooperation Council (GCC). CMH targets the GCC and wider Middle East and North African (MENA) markets as its core focus areas while striving to seek opportunistic investments by aligning its interests with local industry leaders in other markets.

Responsibility CMH strives to achieve above average returns for its shareholders and clients while being conscious of its social responsibilities.

Collaboration CMH partners with its clients to create valuable long-term relationships, offering the most suitable investment solutions and services based on a mutual alignment of interests.

People CMH's clients, shareholders and employees are its stakeholders and it considers them to be its most important assets.

Excellence CMH achieves excellence through commitment to the highest standards of transparency and integrity in all its activities.

Transparency CMH considers transparency and high standards of governance, both in its clients' businesses and in its own, as cornerstones of its approach.



2010 Highlights

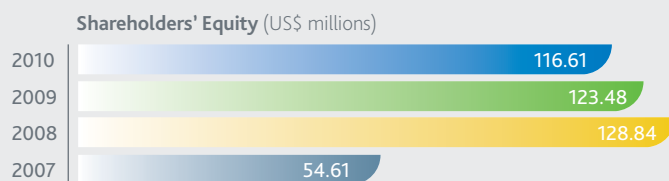
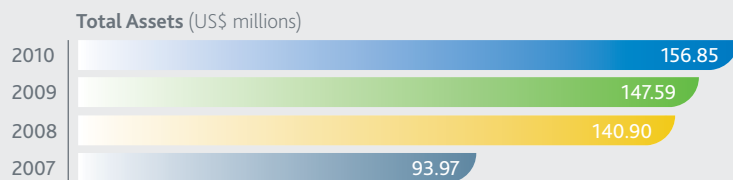
CMH is continuing to develop its business through this difficult economic period by actively managing its investment portfolio to extract value and create new business opportunities. Whilst maintaining a conservative approach, as evidenced by its prudent accounting policies, CMH continues to pursue selective opportunities that focus on capital generation and provide adequate returns.

During the period under review, CMH achieved the following:

- Maintained our portfolio of assets prudently through the economic downturn and pursued a selective approach in entering into investment opportunities that would generate recurring income.
- Increased interaction with prospective clients across the GCC to increase awareness of CMH and its product offerings.
- Continued the development of a track record in regional equities and sukuk to create a platform for launching regional equity and sukuk funds for clients in the future.
- Expanded its FI network within the GCC, which illustrates confidence in its business model and operations from other financial institutions.
- Successfully secured a US\$ 32 million financing facility from the Islamic Corporation for the Development of the Private Sector for TAB Energy, the investment company of our Libya Fund to supplement its operations in Libya.
- Recent unrest in Libya has resulted in short term uncertainty to its investment in the energy sector. However, as this sector is the most important sector in Libya, CMH expects it to be the first to recover when the political situation stabilizes.
- Completed an investment in the booming petrochemical shipping sector in the GCC by acquiring a stake in a shipping company established in Bahrain with I.M. Skaugen (internationally reputed Norwegian shipping company) and Nogaholding (the investment arm of the National Oil and Gas Authority of Bahrain) as partners. The shipping company intends to lease and/or acquire vessels which will operate through I.M. Skaugen's pool and serve GCC petrochemical producers to export to booming Asian economies.
- Completed the acquisition and six year leaseback agreement with Emirates Airlines on a Boeing 777-200ER passenger plane fitted with Rolls Royce Trent 892 engines in conjunction with Novus Aviation (an internationally reputed aircraft leasing firm).
- Generated revenues of US\$ 1.2 million, primarily from treasury operations and trading of our sukuk portfolio.
- Grew total assets by 6% to US\$ 157 million, despite a challenging economic environment.
- Maintained a healthy capital adequacy ratio of 31%, well-exceeding the regulatory requirement of 12% and 8% for CBB and Basel II respectively.
- Recorded provisions of US\$ 5.3 million for impaired investment resulting from reduced asset valuations due to the economic downturn based on our prudent accounting policies.
- Continued to invest in core teams of professionals to enhance the Bank's investment and operational capabilities.

Financial Highlights

	2007	2008	2009	2010
Earnings				
Net Profit / (Loss) (US\$ million)	5.63	14.40	1.08	(9.97)
Earnings per Share (cents)	11.81	27.71	1.08	(9.92)
Return on Average Share Capital (%)	11.81%	27.71%	1.08%	(9.94%)
Return on Average Shareholder Equity (%)	11.44%	20.42%	0.86%	(8.25%)
Dividends per Share (cents)	5.00	16.58	0.00	0.00
Cost / Income %	44.56%	31.01%	57.97%	482.41%
Income per Employee (US\$ million)	0.23	0.69	0.04	(0.37)
Financial position				
Total Assets (US\$ million)	93.97	140.90	147.59	156.85
Total Shareholders' Equity (US\$ million)	54.61	128.84	123.48	116.61
Net Book Value per Share (US\$)	1.14	1.41	1.23	1.16
Client Assets				
Funds Under Management (US\$ million)	55.85	105.98	105.18	107.22



Letter from the Chairman

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

On behalf of the Board of Directors of Capital Management House, it gives me pleasure to present the Group's consolidated financial statements for the year ended December 31, 2010.

As anticipated, the slowdown of the global economies continued during 2010. Although some developed economies witnessed slight recoveries both in GDP and employment growth, further downward pressure was seen in regional property and some other asset values. The global investment community was confronted with very low yields on short term investments, the Euro Bond crisis, European sovereign defaults and significant regulatory requirements from central banks around the world. This led to GCC financial institutions reporting high provisions due to significant commercial defaults and fair value losses on assets.

CMH was no exception. Significant reduction in the profitability reported by regional investment banking institutions and their impact on some of our strategic regional stock holdings affected the Bank and its performance for 2010. The impact of asset value reductions in our holdings resulted in

a total provision of US\$ 5.3 million being made for the year, resulting in a net loss for the year of US\$ 9.97 million. The Bank's management is confident that such specific provisions against unrealized losses may reverse out in the light of improvement of the GCC investment climate. This is the first time in the Bank's history that it reported any losses.

In spite of this, the Bank's underlying financial strength and progress was underscored by a number of important measures. During 2010 we grew our balance sheet prudently, increasing our asset base by 6% to US\$ 156.8 million, whilst ensuring that our balance sheet leverage remained at a conservative level of 1.35x. Our capital adequacy ratio was 31%, comfortably above the limits set by the Central Bank of Bahrain.

CMH's deposit liabilities for the year witnessed an increase of 70%, from US\$ 23 million during 2009 to US\$ 39 million in 2010. We are overwhelmed by the response to our initiatives and are confident that this growth in investor confidence will continue to grow upward during 2011. Although our equity base has reduced by 5.6% from US\$ 123 million to US\$ 116 million, the Bank has preserved its paid up capital of US\$ 100 million and has reduced its risk exposures significantly.

The Bank will continue to follow a strategy focusing on capital preservation whilst building brand value. We will manage our balance sheet conservatively to ensure that we are well positioned to harness existing investment potentials; especially with the encouraging economic outlook for the GCC. We are moderate in our profit expectations and our vision is to continue our growth by further building upon our strong regional network, which will allow us to enhance our access to capital, unique investment opportunities and the right skill sets to achieve steady growth.

The realities of the global and regional investment market are well suited to an investment bank such as CMH. Our ethos is to pursue medium and long term growth potential in unique investment opportunities that can only be originated and structured by our network and skilled management team.

We were able to continue with our development plans, build the business, and do so from a position of strength with a strong capital and asset base. Since our formation, we have managed the business conservatively, always aiming to protect our investors' and clients' capital whilst pursuing innovative investment deals that will produce above average market returns over the medium to long term.

The Bank's underlying financial strength and progress was underscored by a number of important measures. During 2010 we grew our balance sheet prudently, increasing our asset base by 6% to US\$ 156.8 million, whilst ensuring that our balance sheet leverage remained at a conservative level of 1.35x.

Despite challenging market conditions in 2010, which constrained the ability of many regional and global financial institutions to conclude transactions and bring new products to investors, CMH continued to identify and successfully close transactions in 2010 building upon a strong track record of investments made by the Bank from its inception including landmark deals in the power, energy and financial sectors in addition to numerous capital markets transactions. During the year, the Bank also continued to effectively manage these past investments for the benefit of its investors, along with whom CMH invests.

At the same time, whilst pursuing new opportunities and seeking to leverage those already developed, CMH continued its focus on maintaining the highest levels of transparency and corporate governance with investors, clients and all of our stakeholders.

Underpinning this focus are ongoing investments in the Bank's corporate governance policies and structure. CMH, in this regard, has also continued to benefit from the close review and guidance provided by the Central Bank of Bahrain during the year.

Further driving CMH's success is its highly qualified and diverse Board coupled with a strong and capable management team that has the ability to bring compelling investment opportunities to our investors and clients.

We are confident that these factors together with our strong financial and operational foundations will see CMH's business grow over the coming years. We are dedicated to ensuring the continued development of a dynamic Shari'ah investment bank capable of creating value for its shareholders, investors and clients from the significant investment potential the region will continue to offer over medium and long term. The management has made outstanding strides to date both meeting the challenges of the past year and ensuring we are well placed to benefit from the improving regional economies and the positive market outlook.

Finally, I would like to express my gratitude to His Majesty the King, His Highness the Prime Minister and His Highness the Crown Prince and Deputy Supreme Commander of the Bahrain Defence Force for their leadership, visionary reforms and the promotion of the private sector. Special thanks are also due to the Central Bank

of Bahrain, the Ministry of Industry and Commerce and the Shari'ah Supervisory Board for their continued guidance and support. Special thanks as well to our valued shareholders and clients for their continued confidence and support.

My sincere thanks go out to our management and staff for their hard work and dedication. We look forward to the year ahead and to keeping you updated on our positive progress.

Allah the Almighty is the Purveyor of All Success.



Khalid Abdulla Al Bassam
Chairman

Letter from the Managing Director

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

2010 was a year of challenges and progress. Global markets witnessed significant losses both in the sovereign and private sectors. This was a result of a number of critical factors that negatively impacted the market environment including sovereign defaults, significant currency rate fluctuations and abnormal fair value adjustments of both short term and long term assets. CMH was not immune to these global factors and the Bank recorded a net loss of US\$ 9.97 million after impairment provisions of US\$ 5.25 million.

Despite the significant advancements made by the Bank on numerous fronts, this was the first year of net loss for the Bank since its establishment and in spite of the difficult market conditions which have persisted since 2008 globally. Losses are attributable to the conservative management option exercised by CMH to take significant impairment provisions reflecting fair value of carrying assets. This included a full provision for investment impairments of US\$ 5.25 million taking the aggregate provision to US\$ 10.7 million. This, however, in no way affected the

underlying financial strength of the Bank. I am pleased to report that shareholders' invested capital is preserved as at 31 December 2010 and the current year losses only reduced our accumulated reserves since inception.

During 2010, we grew our asset base cautiously, only investing in high quality yielding assets. The year end assets were US\$ 156.8 million and reflected growth of 6% from US\$ 147.6 million in 2009. We also ensured that we maintained a conservative level of balance sheet leverage at 1.3x (2009 = 1.2X) and maintained our investment leverage at 1.0x (2009 = 1.06x) of shareholders' equity. The Bank's liquid assets also increased to 31% of total assets in 2010 against 27% in 2009. Capital Adequacy Ratio (CAR) stood at 31% for 2010 versus 38% in 2009. This strategy of maintaining strong liquidity and capital management, ardently supported by our shareholders, has meant that CMH is now in a strong position to capitalize on the investment opportunities created by the economic downturn.

As well as solidifying the Bank's balance sheet and realigning sources of income, we also focused on closely managing the cost base of the business. Over the course of the year, we implemented a wide ranging

business efficiency programme, which saw total expenses for the year reduce by 13% to US\$ 6.0 million from US\$ 6.8 million in 2009. We intend to continue to maintain a clear focus on the cost base of the business.

Due to our unique network of regional contacts and our strategy of only pursuing selective investment opportunities, 2010 was underscored by several significant developments in new and current investments.

We added logistics and transportation to our focus this year in addition to continuing to build on the investments we have made in the power and energy sectors. During 2010, our power and energy assets continued to develop as planned, reaching a number of milestones.

Al Dur Power Project is progressing and is expected to be a significant economic asset for Bahrain, providing strong anticipated financial returns for the investors. The power station is expected to go on stream before the end of 2011.

Tab Energy, our Libya focused oil services company, procured new contracts with Sirte Oil Company, an exploration subsidiary of the Libyan National Oil Corporation. This contract involves the provision of TAB Energy

Due to our unique network of regional contacts and our strategy of only pursuing selective investment opportunities, 2010 was underscored by several significant developments in new and current investments.

drilling services in Libya to Sirte. CMH also advised on and secured a US\$ 32 million financing facility for TAB energy from the Islamic Development Corporation for the Development of the Private Sector, the private sector arm of the Islamic Development Bank, to acquire one or more rigs that will be utilized by its drilling services subsidiary.

CMH is mindful of the current political events that have since transpired in Libya in 2011 and the challenges it may bring, yet we anticipate that Libya will provide renewed opportunities once the current situation resolves. Currently, we are closely monitoring this changing phase in Libya whilst preserving our asset base as efficiently as can be achieved in this difficult environment.

During November 2010, CMH also completed the acquisition of an equity stake in Skaugen Gulf Petchem Carriers BSC(c) ("SGPC") alongside I.M. Skaugen (IMS), a leading, listed Norwegian marine transportation services company, and Nogaholding Company, the investment arm of Bahrain's National Oil & Gas Authority (NOGA). SGPC is a petrochemical shipping company that owns and operates ethylene, LNG and LPG carriers between the Middle East and global markets and was established

by IMS in November 2009. This marked CMH's first foray into the transportation and logistics sector, where we see significant opportunity for the Bank and our investors. This exciting investment product, which has been approved by the Central Bank of Bahrain, will be placed with investors in early 2011, offering them the opportunity to leverage the growth of the region's petrochemicals sector.

Another notable transaction in 2010 was in the aviation sector. CMH in partnership with Novus Aviation and Muzun Partner Ltd completed the acquisition of a Boeing 777-200ER aircraft from Emirates Airline. According to the terms of the agreement, the aircraft, fitted with Rolls Royce Trent 8900 engines, will be leased back to Emirates Airlines for a fixed six-year term.

We have seen strong investor participation in this deal alongside CMH and will be offering the opportunity to additional investors in the first half of 2011. We are currently in the process of sourcing and structuring additional income yielding products as part of our ongoing efforts to further develop our asset management capability in the GCC region. Although we entered the year predicting the market would continue to be extremely challenging, the Bank's investment department originated and structured new

and innovative products. These include a number of opportunities that CMH expects will offer sound revenue potential in 2011 and beyond. Fee income, which was minimal during 2010, will improve notably in 2011 as new products will be launched during the first quarter of 2011 and throughout the remainder of the year.

Early in the year, we also enhanced the scope of our proprietary trading team for regional equities and sukuk. The objective of the team's growth was to further develop our market leading trading capability ahead of launching funds for our clients.

As with our investment ethos, where we always co-invest with our investors and clients, we believed that it was important that we developed and tested our own internal talent before launching a product to the market. We intend to increase our focus on asset management when appetite for these investments increase and in line with the recovery of GCC primary markets.

Throughout the year, CMH also maintained its focus on further strengthening and maintaining its human capital. As an institution, we rely on the capabilities and loyalty of our expert teams to plan and provide new and innovative strategies to both help our investors counter financial

We have continuously reviewed our policies and procedures in light of the compelling banking environment and have formulated a five-year business plan with the strategy of capital preservation and brand building as the main objective with slower but steady growth identified as the underlying focus.



Letter from the Managing Director

challenges and continue to take advantage of opportunities where they present themselves.

During 2010 the Bank continued to develop internal controls and risk management techniques and improve human resources through training and selective professional course and sponsorship of Bahraini talent. We have continuously reviewed our policies and procedures in light of the compelling banking environment. The five year business plan has been formulated with the strategy of capital preservation and brand building as the main objective with slower but steady growth identified as the underlying focus.

In an era where shareholders, clients and regulators are quite rightly demanding an increasing level of transparency from their investment service providers, only those finance houses operating at international standards of transparency and corporate governance will be able to develop their business for the long term.

During 2011, we expect to strengthen our capabilities in product development, placement and investment. This will be driven

by the continued recruitment of new talent to help build the business and through the leveraging of our already strong teams and regional and global network. We believe that experienced professionals are the cornerstone of success and we will continue to build on our product, distribution and operational capabilities in a controlled and disciplined way to enhance the efficiency of the business.

As global and regional markets recover, CMH continues its cautious approach to targeting selective and innovative investment opportunities on behalf of its clients.

Although it is unlikely that we will see the high rates of growth experienced prior to the global financial crisis of recent years, we will see a return to moderate and sustained growth during 2012.

We will continue to build the business prudently over the course of 2011 and remain confident of our prospects and in our ability to continue to generate healthy returns for both our shareholders and clients. Having already established a strong reputation in

energy, transportation and logistics, aviation, financial services and real estate, we intend to broaden our scope during the coming months to include other specialized sectors that are important to the development of the economies of our target markets. We have already begun to do this and will continue to build our presence across all of these areas and other areas of opportunity in the year ahead.

Allah the Almighty is the Purveyor of All Success.



Khalid Mohamed Najibi
Managing Director

Board of Directors



**Mr. Khalid Abdulla Al Bassam -
Chairman**

Chairman of Al Bassam Investment Company WLL and Bahrain Islamic Bank BSC and a Member of The Islamic Bank of Asia (Singapore), Gulf Investment Corporation (Kuwait) and the Islamic Development Bank – Unit Investment Fund (Saudi Arabia). Previously, he was the Deputy Governor of the Central Bank of Bahrain, Vice Chairman of the Bahrain Stock Exchange and a Board Member of the General Organization for Social Insurance (GOSI). He received the Islamic Banker of the Year award in 2002 presented during the World Islamic Banking Conference. He holds a BA in Business Administration from Eastern New Mexico University, USA in 1988 and has in excess of 22 years of experience in the fields of finance and investment.



**Mr. Abdulhakeem Yaqoob Alkhayaat -
Vice Chairman**

Managing Director and CEO of Kuwait Finance House - Bahrain. He is also Chairman of Durrat Khaleej Al Bahrain, Diyyar Al Muharraq BSC(c) and a Member of the Board of several other non-profit organisations including Bahrain Polytechnic. He holds a Bachelor of Business Administration from the University of Texas, a BA in Middle Eastern Studies and has passed the US Certified Public Accountants Exams in 1997 and has in excess of 19 years experience in the banking industry.



**Mr. Khalid Mohamed Najibi -
Managing Director**

Managing Director and Chief Executive Officer with more than 20 years of experience in the fields of finance and investment. He is a Founding Member of Bahrain based Najibi Investment Company and a Board Member of Bahrain Islamic Bank BSC, First Energy Bank BSC and Arbah Capital (Saudi Arabia) as well as a Founding Member of Young Arab Leaders (YAL) Bahrain Chapter. He holds a BA in Business Administration with a major in Finance from Schiller International, UK (1990) and has passed the US Certified Public Accountants Exams in California USA in 1993.



**Mr. Saleh Hassan Al Afaleq -
Non Executive Director**

Director of Finance of Al-Kifah Holding Company and its subsidiaries, Chairman and Founding Member of Al-Ahsa Amusement and Tourism Company, Vice Chairman of Arbah Capital (KSA) and Member of the Board of Noor Capital (Abu Dhabi). He is also Chairman of Al Ahsa Chamber of Commerce & Industry (Saudi Arabia) and a Board Member of The Council of Saudi Chambers of Commerce. He holds a BS (MIS) from King Faisal University, Saudi Arabia (1988) and an MA in Human Resource Development from Seattle University, USA in 1990 and has more than 22 years of finance and investment experience.



**Sh. Khalid Bin Mohammed Al Khalifa -
Non Executive Director**

Chief Executive Officer of Palm Capital S.P.C. since November 2005. Previously, he held several positions in the Bahrain Monetary Agency (now Central Bank of Bahrain) for five years including Head of the Strategic Planning Unit. He holds a Bachelors degree from Boston University (Cum Laude), a Masters degree in Economics from Tufts University and an Executive MBA from the University of Virginia, Darden School of Business through the Bahrain Institute for Banking and Finance. He is also a board member of several real estate development companies in the Kingdom of Bahrain and has in excess of 13 years of experience in the fields of finance and investment.



**Mr. Hisham Saleh Al Saie -
Non Executive Director**

Chief Investment Officer of Overseas Investment Company S.P.C. Previously, he was Head of Corporate Finance at SICO Investment Bank, responsible for structuring key local and regional equity and debt capital market transactions. He has also held positions at BDO Jawad Habib, PriceWaterhouseCoopers and Arthur Andersen. He is a Board Member of Nass Corporation BSC, Health Island BSC(c), Manara Development BSC(c), Diyyar Al-Muharrag BSC(c), BMI Bank BSC(c), Al Khaleej Commercial Bank (Qatar) and Amar Holding Company BSC(c). He holds a BA in Accounting from the University of Texas and has attended a number of executive education courses at INSEAD and other reputable institutions and has in excess of 13 years experience in the fields of finance and investment.

Board of Directors



**Mr. Jamal Saeed Al Ojaili -
Non Executive Director**

Director & CEO of Global Financial Investments Holding SAOG, (Oman), Chairman of United Finance Company SAOG, Chairman and President of the Executive Committee of Muscat Gases SAOG and CEO of Ithraa Capital (UAE). He also serves as Board Member of several financial institutions in the GCC. In addition, he is the Vice Chairman of Oman Education and Training Investment Company and Chairman of the Board of Governors of Sohar University (Oman). He holds a BA in Business Administration from Ohio Dominican College, USA (1986) and an MBA from Lincolnshire & Humberside University, UK (1998) and has more than 24 years in the fields of finance and investment.



**Mr. Abdul Hakim Aladhamy -
Independent Non Executive Director**

Member of the Board and Chairman of the Audit Committee of Bahrain National Holding BSC(c) (Bahrain), Ebrahim Khalil Kanoo BSC(c) (Bahrain) and National Finance House BSC(c) (Bahrain). He is also a member of the Audit Committee of Commercial Bank of Dubai PSC and a member of the Audit and Risk Committee of Merras Holding, Dubai. Has over 35 years experience in the provision of audit and advisory services to clients both in the financial and non-financial service sectors (Islamic and Conventional) and was a partner at KPMG (Bahrain and Qatar) and Ernst & Young (Bahrain). He holds a BA in Commerce from Baghdad University and is a Fellow of the Institute of Chartered Accountants (England and Wales).

Shari'ah Supervisory Board



**Sheikh Nizam Mohammed Saleh Yaquby -
Chairman and Executive Member**

Sheikh Nizam Mohammed Yaquby is a prominent Islamic scholar, who obtained his education in Classical Shari'ah in Bahrain and Makkah under the guidance of eminent Islamic scholars. He has a BA in Economics and Comparative Religion and an MSc. in Finance from McGill University, Montreal, Canada. Currently, he is a PhD candidate at the University of Wales in Islamic Law. Sheikh Nizam is a member of a number of Shari'ah Supervisory Boards, including the Central Bank of Bahrain, Dow Jones Islamic Index, Shari'ah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and has been a visiting lecturer at Harvard University.



**Dr. Mohd Daud Bakar -
Member**

Dr. Mohd Daud is currently the Managing Director of Amanie Islamic Finance Consultancy and Education in DIFC, Dubai and Amanie Business Solutions in Kuala Lumpur. Previously, he was the Deputy Vice Chancellor of International Islamic University Malaysia. He holds a Bachelor degree in Shari'ah from the University of Kuwait and Jurisprudence from the Law Faculty, University of Malaysia. He holds a PhD degree in Islamic Law from the University of St. Andrews, United Kingdom and is the Chairman of the Shari'ah Advisory Council (SAC) at the Central Bank of Malaysia. He also serves as a member of The Shari'ah Board of the Securities Commission of Malaysia and in several Islamic financial institutions both local and international, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Bahrain, International Islamic Rating Agency, Bahrain and Dow Jones Islamic Market Indexes (DJIM), New York, Bank of London and Middle East, London and Noor Islamic Bank, Dubai. He has published more than 30 articles in academic journals and has presented more than 120 papers in various conferences.



**Dr. Mohammed Ali Elgari -
Member**

Dr. Elgari holds a PhD in Economics from the University of California (USA), and is currently serving as a Professor of Islamic Economics at King Abdulaziz University (Jeddah), Saudi Arabia. He is a Shari'ah advisor to numerous Islamic financial institutions including HSBC Amanah, Noor Islamic Bank, Dow Jones Islamic Index, National Commercial Bank, SAMBA Financial Group, Saudi Arabian British Bank, Islamic Bank of Asia Ltd, Banque Saudi Fransi and Citi Islamic Investment Bank. He is also an expert at the Islamic Jurisprudence Academy (OIC) in Jeddah, as well as a member of the International Islamic Fiqh Academy and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). As a prolific writer, his work has been published in a number of scholarly journals and he has authored several books.

Executive Management



**Mr. Khalid Mohamed Najibi -
Managing Director**

Managing Director and Chief Executive Officer with more than 20 years of experience in the fields of finance and investment. He is a Founding Member of Bahrain based Najibi Investment Company and a Board Member of Bahrain Islamic Bank BSC, First Energy Bank BSC and Arbah Capital (Saudi Arabia) as well as a Founding Member of Young Arab Leaders (YAL) Bahrain Chapter. He holds a BA in Business Administration with a major in Finance from Schiller International, UK (1990) and has passed the US Certified Public Accountants Exams in California USA in 1993.



**Mr. Mohamed Ali Aljasim -
Chief Investment Officer**

Chief Investment Officer since February 2007 with more than 12 years of experience in investment banking. Previously, held the position of Senior Executive Director and Head of Investment Banking at Gulf Finance House BSC(c) where he participated in a wide range of significant projects and investment activities. He holds a BA (Hons) Accounting degree from the University of Portsmouth, UK (1999).



**Mr. Bakkar Al Sakin -
Head of Legal & Compliance
and Secretary to the Board**

Head of Legal and Compliance and Secretary to the Board. He has more than 20 years of experience in the legal field and has a rich background in commercial legal practice and international corporate exposure. Previously, he worked for Arab Insurance Group (Bahrain) and Bahrain Petroleum Company. He has practiced law in Sudan, Saudi Arabia and the United Kingdom. Bakkar obtained his LLB (Honors) from the University of Khartoum, Sudan in 1984 and his CPE and LPC and a Masters Degree in Legal Practice from the United Kingdom.



**Ramanathan Rajendran -
Head of Financial Control**

Head of Financial Control with more than 30 years of experience in the field of financial management. Previously he held positions at Ernst & Young and off-shore banks and investment companies in Bahrain and Kuwait where he was involved in financial accounting, credit administration, investment accounting, venture capital accounting and fund administration. His last assignment was with the Kuwait Investment Authority, the sovereign wealth fund of the Government of Kuwait. He is a Chartered Accountant, a member of ACCA and CIMA (UK) and CIA (USA).

In a move to diversify our sector exposure, we have initiated investments in the promising aviation and petrochemical shipping sectors to supplement our existing exposure in energy, utilities and financial services.

Business Lines

Private Equity & Venture Capital

We specialize in under-valued or under-funded companies as well as those seeking technical or operational support in our target markets. Our strategy involves taking an active role in the management of the target company, ensuring growth and the success of each investment by co-operating at every level. We align our interest with local partners in countries where we do not have a presence to take advantage of their local know-how to mitigate investment risk.

In a move to diversify our sector exposure, we have initiated investments in the promising aviation and petrochemical shipping sectors to supplement our existing exposure in energy, utilities and financial services. We partnered with Novus Aviation, a leading player in the aircraft leasing field to target investments in the aviation sector. In 2010, CMH acquired a Boeing 777-200ER passenger plane that is leased (on a dry lease basis) to Emirates Airlines for a six-year term. The deal is expected to provide clients with quarterly distribution while targeting an attractive IRR over the investment period.

CMH also launched an investment opportunity revolving around the booming petrochemical shipping sector in the GCC. The deal involves investing in a shipping company established in Bahrain which has

I.M. Skaugen (an internationally reputable shipping group based in Norway) and Nogaholding (the investment arm of the National Oil and Gas Authority of Bahrain) among its partners. The shipping company intends to lease and/or acquire vessels which will operate through the Norgas Pool (IMS' shipping pool). This deal aims to capitalize on the rising demand for petrochemicals which has witnessed the GCC countries building up capacities for Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and a host of other petrochemicals. Demand is emanating from many Asian countries including China which are becoming leading importers for these products due to the rapid expansion of their manufacturing sectors. Increased exports of these products are expected to lead to increased seaborne trade between the GCC and the rest of the world.

The Libya Fund, in which we are the main sponsor, witnessed significant developments in 2010 and early 2011. The Libya Fund has a major investment in the energy sector, TAB Energy, which was established to provide services to Libya's oil and gas sector. TAB Energy's subsidiary, Etelaf Oil Services, has won significant drilling and service contracts with some of the world's leading energy companies including Sirte Oil Company, Gazprom, Woodside, Chevron and Impex, all of which offer strong opportunities to

generate revenue. In 2010, CMH secured a US\$ 32 million financing facility from the Islamic Corporation for the Development of the Private Sector to help grow its business.

Apart from the energy sector, the Libya Fund has also invested in the under developed healthcare sector in Libya.

The recent unrest in Libya has impacted operations considerably, CMH and Tuareg Capital (the Investment Manager of the Libya Fund) are focusing their efforts on preserving the value of the investments made to date by the Fund. Given that energy is the most important sector for the Libyan economy, it is expected to be the first to recover once the political situation in Libya is resolved.

CMH won the award for the Best GCC Private Equity Firm 2010 from World Finance.

Real Estate

Real estate is a core asset-class for investors in the region and we recognize the role real estate plays in the various economies. Our strategy is to focus on niche markets with strong fundamentals and we manage the risks associated with such investments by applying minimal amounts of leverage and high levels of liquidity. Through our value-based approach to investment, we plan to capitalize on opportunities within the current market given the attractive valuations on

Business Lines

offer while maintaining a balanced and diversified strategy by offering superior returns. Our portfolio in this asset class comprises a combination of income-yielding investments and development projects in Bahrain and Saudi Arabia.

We are currently focusing on preserving the value of our projects and will explore pre-let developments, income producing properties and affordable housing project going forward.

Asset Management

As part of our commitment to offering our clients a broad range of products we intend to develop commodity, equity and fixed income funds during the next few years. The funds will build on the insight and expertise that we have developed from having traded successfully in both equities and sukuk on a proprietary basis since we were founded. In asset classes where we do not have the expertise in-house, we intend to work with reputable fund managers with established track records in managing these funds.

Capital Markets

Proprietary Sukuk Trading: CMH built up a well balanced portfolio of GCC sukuk with the aim of increasing exposure to this asset class. The investment objectives of the portfolio are to pursue a primarily cash flow-

driven, income-oriented investment strategy through highly effective yields and to seek capital gains by opportunistically acquiring undervalued sukuk in this distressed economic environment.

CMH shall realize each security investment either via trading of sukuk or holding till maturity, whichever produces the better return.

GCC Equities Proprietary Portfolio: During the year, CMH maintained a well-balanced GCC portfolio of liquid, value driven stocks offering moderate dividend income.

CMH implements a consistent and proven investment philosophy, style and process in its directly managed investment portfolio. CMH actively seeks to add value at each of the portfolio's selection levels: country, sector and stock. The objective is the identification of mispricing within the GCC equity markets through a structured investment process in order to produce both capital appreciation and dividend income.

The strategy employed in both asset classes revolve around the following investment process:

- Bottom-up Analysis
- Undervalued Sukuk
- Opportunistic Stance
- Risk Mitigating Tactics

The aforementioned multi-pronged approach is necessary in the prevalent market conditions, which although not geared towards short-term out performance, is expected to generate strong market out performance over the long term.

Investment Banking

We provide investment banking services with unbiased advice and experience-based solutions. Our capabilities include:

- Mergers and Acquisitions Advisory
- Restructuring and Reorganization Advisory
- Private Placement Advisory
- Investment Management
- Project Management / Project Development Advisory

As part of our investment banking offering, we intend to focus on Shari'ah advisory going forward. Given our commendable track record in structuring innovative Islamic deals in the alternative investments landscape including private equity and real estate, we will assist clients in structuring deals from a Shari'ah perspective.

Corporate Governance

CMH adheres to best practices of corporate governance by closely observing compliance with the CBB Rulebook and all other regulations applicable to Islamic Investment Banks as well as the Bahrain Commercial Companies Law and the Corporate Governance Code which was recently promulgated by the Ministry of Industry and Commerce.

The corporate governance framework of the Bank supports an efficient decision making structure that is transparent and that aligns the interests of investors, management and employees with those of its shareholders. This framework is strengthened by clear Corporate Governance Guidelines, a Code of Conduct and adherence to the principles of Shari'ah.

The organization chart below shows the Board Committee structure and the management reporting lines of CMH.

Board of Directors

The Board of Directors is responsible for the strategic leadership of the Bank and for providing effective governance to the Bank's affairs in exercising its responsibilities towards its shareholders, investors, employees and other stakeholders. The Board consists of eight members, six non-executive, one executive and one non-executive independent member. The Board of Directors meets at least four times per year or, as often as the business requires. During 2010, the Board met four times.

The Board continuously assesses the Bank's strategic objectives and provides guidance towards the achievement of these aims. The Board reviews and approves business plans, financial budgets, investment proposals, risk strategy and framework and the limits for interbank and other investment activities of the Bank.

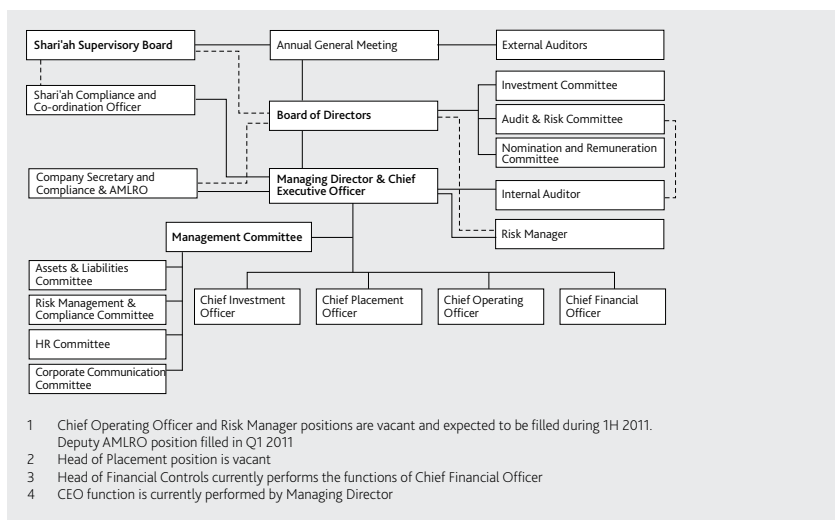
The Board has delegated the supervision and execution of its responsibilities to the Board Sub Committees, namely, Investment Committee, Audit and Risk Committee and Nomination & Remuneration Committee.

Investment Committee

The Investment Committee holds the supervisory responsibility of the investment portfolio of the Bank and conducts its role as prescribed in the Investment Policies and Procedures Manual approved by the Board of Directors. The primary task of the Committee is to carry out a constant review of the investment strategy and provide new and alternative directions for the business focus of the Bank taking into consideration the market environment and business climate. The Committee reviews, recommends and approves the Bank's new investment proposals and conducts a constant review of the existing investment portfolio. During 2010, the Committee met twice.

Members:

Mr. Khalid Abdulla Al Bassam – Chairman
Mr. Khalid Mohamed Najibi
Mr. Saleh Hassan Al Afaleq



Corporate Governance

Audit & Risk Committee

The Primary responsibilities of the Audit & Risk Committee is to oversee all financial reporting, internal control, risk management and internal and external audit. The Committee also oversees obligations under Basel II framework. During 2010, the Committee met four times.

Members:

Mr. Abdul Hakim Aladhamy - Chairman
Mr. Hisham Saleh Al Saie
Sh. Khalid Bin Mohammed Al Khalifa
Mr. Jamal Saeed Al Ojaili

Nomination & Remuneration Committee

The Nomination & Remuneration Committee oversees matters related to the nomination of new directors, the assessment of the Board and its committees and directors and the remuneration of the directors and other members of senior management. The Committee also oversees compliance with laws and regulations. During 2010, the Committee met once.

Members:

Mr. Khalid Abdulla Al Bassam – Chairman
Mr. Abdulhakeem Alkhayat
Mr. Khalid Mohamed Najibi

Shari'ah Board

The Shari'ah Supervisory Board is responsible for directing, reviewing and supervising the Bank's activities to ensure that they comply with the rules and principles of Shairah. The Board's responsibilities cover all aspects of our business and activities.

Members:

Sheikh Nizam Mohammed Saleh Yaquby – Chairman
Dr. Mohammed Ali Elgari
Dr. Mohd Daud Bakar

Risk Management

The risk management objective of the Bank is to identify, capture, monitor and manage various dimensions of risk with the objectives of protecting asset values and income streams such that the interest of the Bank's shareholders (and others to whom the Bank owes liability) are safeguarded, while the returns are intended to optimize the Group's shareholder return, with the risk exposure maintained within the self imposed parameters.

The Bank only accepts risk when it perceives the probable rewards to be commensurate with the level of risk involved. Effective and timely managed risk is considered critical to the Bank's financial soundness, profitability and increasing shareholder value.

The Bank has defined its risk appetite within the parameters of its risk strategies. The

Board reviews and realigns its risk appetite as per the evolving business plan with changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategies to manage these risks.

The most important risk categories that the Bank is exposed to are: investment risk; credit risk; liquidity risk; market risk; operational risk and reputational risk.

The Board of Directors has overall responsibility of managing risks. The sub-committee, Audit and Risk Committee of the Board, approves and periodically reviews the Bank's risk management policies and strategies and prescribes and defines additional control environment commensurate with the operations of the Bank.

The Risk Management Committee and the Asset and Liability Committee (comprising of senior management) recommend the relevant policies, procedures and limits to monitor and mitigate various risks.

Internal Audit

During the year 2010, the Bank established the Internal Audit Department. The Internal Audit function reports directly to the Audit & Risk Committee of the Board to provide independent and objective assurance over the adequacy and effectiveness of the Bank's governance, internal controls and risk management processes. During 2010,

the Internal Audit department audited key processes according to risk based methodologies. Internal Audit examines the adequacy and effectiveness of policies, procedures and regulatory guidelines. The Internal Audit discusses the assessment, observations and recommendations with the relevant members of management and reports the same to the Board's Audit & Risk Committee.

Compliance

The Board ensures that there are comprehensive compliance policies and procedures in place that define and enforce standards of transparency and integrity when conducting business across the whole organization. CMH is committed to establishing strong and independent compliance functions through continuously developing and monitoring its Compliance Department to assist the management in managing the compliance risks faced by the Bank.

The compliance function ensures that the Bank's operations and activities are in compliance with the rules and regulations of the Central Bank of Bahrain, the Ministry of Industry and Commerce, the corporate Code of Conduct and any other applicable laws or regulations. It also monitors behavior within the organization and ensures that it meets our ethical standards. The compliance function also assists senior management in

educating staff and in increasing awareness of compliance issues across the whole organization. The function is supported by policies and procedures put in place to ensure that we comply in full with our legal and regulatory obligations, including those designed to prevent money laundering.

Code of Conduct

CMH has established a Code of Conduct that governs the professional and personal actions and behaviour of the Directors, Management and Staff.

Bank Committees

Management Committee

The Management Committee is responsible for the oversight of day-to-day operations of the Bank. It monitors the performance of all business lines and departments in relation to the Bank's strategies, policies, targets and limits. It also has the overall responsibility of managing the assets and liabilities of the Bank. During 2010, the Committee met four times.

Members:

Mr. Khalid Mohamed Najibi (MD) - Chairman
Mr. Mohamed A. Aljasim (Chief Investment Officer) – Deputy Chairman
Mr. Ramanathan Rajendran (Head of Financial Control)
Mr. Bakkar Al Sakin (Head of Legal & Compliance)
Mr. Arshan Merchant (Head of Internal Audit, non-voting member)

Asset & Liabilities Committee

The Committee is responsible for monitoring the balance sheet, liquidity management and capital adequacy of the Bank. The Committee, in coordination with others, develops policies on diversification and liquidity. During 2010, the Committee met four times.

Members:

Mr. Khalid Mohamed Najibi (MD) - Chairman
Mr. Mohamed A. Aljasim (Chief Investment Officer) – Deputy Chairman
Mr. Ahmed A. Abdulrahim (Head of Operations)
Mr. Ramanathan Rajendran (Head of Financial Control)

Risk Management & Compliance Committee

Risk Management & Compliance Committee oversees the Bank's risk management policies to ensure compliance with various regulatory requirements. During 2010, the Committee met three times.

Members:

Mr. Ramanathan Rajendran (Head of Financial Control) - Chairman
Mr. Bakkar Al Sakin (Head of Legal and Compliance) – Deputy Chairman
Mr. Arshan Merchant (Head of Internal Audit, non-voting member)

Corporate Governance

Human Resources Committee

Human Resources Committee is responsible for ensuring compliance with the Bank's policy on staffing, compensation and benefits and regulatory compliance. During 2010, the Committee met once.

Members:

Mr. Khalid Mohamed Najibi (MD) - Chairman
Mr. Mohamed A. Aljasim (Chief Investment Officer) – Deputy Chairman
Mr. Khalil Kooheji (Head of Human Resources and Administration)

Corporate Communications Committee

The Corporate Communications Committee manages the Bank's communications activities in accordance with approved policies and procedures, including maintaining and updating the Bank's website, where all relevant corporate, governance and financial information is readily available. During the year, the Committee outsourced the corporate communication functions. During 2010, the Committee met five times.

Members:

Mr. Mohamed A. Aljasim (Chief Investment Officer) - Chairman
Mrs. Lynne Al-Wadi (MD's Office) – Deputy Chairman
Mr. Khalil Kooheji (Head of Human Resources and Administration)
Mr. Syed Azher (Head of IT)

Management Team

Khalid Mohamed Najibi

Managing Director / Chief Executive Officer

Mohamed Ali Aljasim

Chief Investment Officer

Executive Directors

Bakkar Al Sakin

Head of Legal & Compliance

Ramanathan Rajendran

Head of Financial Control

Arshan Merchant

Head of Internal Audit

Directors

Ahmed Ali Abdulrahim

Head of Operations

Khalil Mohammed Kooheji

Head of HR & Administration

Mohammed Kettani

Investments

Soufiane Ouenniche

Investments

Principals

Mohammed Ishaq Al Ansari

Investment Placement

Nabeel Ahmed Mustafa

Investment Placement

Fawaz Abdulrahman Abaalkhail

Investment Placement

Mohammed Fahim Shelot

Investments*

Syed Azher

Head of IT

Lynne Al-Wadi

MD's Office

Senior Associates

Hassan Al Mahroos

Investments

Murtadha Mohammed Alam

Investments*

Ahmed Abdulrahim Meshai

Financial Control

Officers

Haleema Mohammed

Al-Alawi

HR & Admin

Associates

Khalid Mahmood Abdulla

Operations

Mohammed Ahmed Al

Dhubaib

Operations

Mohammed Khonji

IT

Farah Mohammed

HR & Admin

Huda Riyadh Al Rahma

Investment Placement

Maryam Mahmood Al Jaber

Investment Placement

Huda Hussain Al-Gallaf

Investment Placement

*joined in 2011



Shari'ah Supervisory Board Report

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

To the Shareholders of Capital Management House BSC, on the activities of Capital Management House (CMH), for the financial year from 1st January 2010 to 31st December 2010

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

The Shari'ah Supervisory Board for Capital Management House BSC and in compliance with the letter of its appointment and the Bank's Articles of Association is pleased to submit to you the following report on the activities of the Bank through the financial year ending 31 December 2010.

We have reviewed the principles and the contracts relating to the transactions and the products introduced by the Bank during the period commencing 1st January 2010 to 31st December 2010. We have conducted our review to form an opinion as to whether the Bank has complied with the Shari'ah Rules and Principles and with the specific fatwa, ruling and guidelines issued by us.

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

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

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

In our opinion:

- The contracts, transactions and dealings, entered into by the Bank during the period commencing 1st January 2010 and ending on 31st December 2010 that we have reviewed are in compliance with the Islamic Shari'ah Rules and Principles;
- The allocation of profit and charging of losses relating to investment accounts conform to the basis that has been approved by us in accordance with Islamic Shari'ah Rules and Principles;
- The calculation of Zakat complies with Islamic Shari'ah Rules and Principles.

We beg Allah the Almighty to grant us success and lead us on the right path.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



Sh. Nizam Mohammed Saleh Yaqouby
Chairman and Executive Member of Shari'ah Board



Dr. Mohammed Ali Elgari
Shari'ah Board Member



Dr. Mohammed Daud Baker
Shari'ah Board Member

Report No. 5
Date: 6th February 2011

Auditors' Report to the Shareholders of Capital Management House BSC(c)

We have audited the accompanying statement of financial position of Capital Management House BSC(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 changes in restricted investment account 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.

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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive blue font.

14 February 2011
Manama, Kingdom of Bahrain

Capital Management House BSC(c)
Consolidated Financial Statements 2010

energy to succeed



Consolidated Statement of Financial Position

At 31 December 2010

	<i>Notes</i>	<i>2010 USD'000</i>	<i>2009 USD'000</i>
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

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

Consolidated Statement of Income

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010 USD'000</i>	<i>2009 USD'000</i>
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 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 consolidated financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2010

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
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	(2,461)	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	13,685	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	11,350	(56,158)
FINANCING ACTIVITIES		
Proceeds of MIP shares issued	901	-
Proceeds from share grant reserve	(901)	-
Net cash from financing activities	-	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,035	(38,871)
Cash and cash equivalents at 1 January	12,365	51,236
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37,400	12,365
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
	37,400	12,365

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital US\$ '000	Treasury and Unallocated Shares under MIP US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	General reserves US\$ '000	Cumulative changes in fair values reserve US\$ '000	Retained earnings US\$ '000	Share Grant reserve US\$ '000	Total reserve US\$ '000	Total US\$ '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

	Share capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	General reserves US\$ '000	Cumulative changes in fair values reserve US\$ '000	Retained earnings US\$ '000	Share Grant reserve US\$ '000	Proposed dividend US\$ '000	Total reserve US\$ '000	Total US\$ '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
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

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

Notes to the Consolidated Financial Statements

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.

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".

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

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

<i>Subsidiary</i>	<i>Activities/Status</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>Ownership %</i>
(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Judgments and estimates (continued)

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.

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".

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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

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

4 DUE FROM FINANCIAL INSTITUTIONS

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
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

Notes to the Consolidated Financial Statements continued

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

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

7 NON-CURRENT ASSETS HELD FOR SALE

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
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)

8 FIXED ASSETS

	<i>Equipment and vehicles USD'000</i>	<i>Others USD'000</i>	<i>Work-in Progress USD'000</i>	<i>2010 Total USD'000</i>	<i>2009 Total USD'000</i>
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

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

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

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 ACCOUNTS

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

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.

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

13 EQUITY (continued)*(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".

(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

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

15 INCOME FROM INVESTMENTS

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

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

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
	2,331	3,164

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.

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
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
	12,379	4,570

The Bank has commitments relating premises lease rentals as follows:

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

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

17 COMMITMENTS AND CONTINGENT LIABILITIES (continued)***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
Total commitments and contingent liabilities	13,324	5,868

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 USD'000	2009 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 2010 USD'000	31 December 2009 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 USD'000	2009 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.

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	155,509	145,731
Credit commitments and contingent liabilities	13,324	5,868
Total credit risk exposure	168,833	151,599

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.

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.

Loss - Individually impaired

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

19 CREDIT RISK (continued)**Credit quality per class of assets as at 31 December 2010**

	<i>Good 2010 USD 000</i>	<i>Watch 2010 USD 000</i>	<i>Past due or individually impaired 2010 USD 000</i>	<i>Total 2010 USD 000</i>
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 2009 USD 000</i>	<i>Watch 2009 USD 000</i>	<i>Past due or individually impaired 2009 USD 000</i>	<i>Total 2009 USD 000</i>
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

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.

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

20 LIQUIDITY RISK (continued)

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 consolidated 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 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total 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	-	-

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

20 LIQUIDITY RISK (continued)

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

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
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 follows:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
Credit Commitments	-	6,082	5,703	-	-	-	11,785
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:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
Credit Commitments	-	1,064	-	-	-	-	1,064
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 continued

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 in 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.

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).

21 MARKET RISK (continued)**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:

	<i>Change in currency rate %</i>	<i>Effect on profit 2010 USD'000</i>	<i>Effect on equity 2010 USD'000</i>	<i>Effect on profit 2009 USD'000</i>	<i>Effect on equity 2009 USD'000</i>
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.

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 rations 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.

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

22 CAPITAL MANAGEMENT (continued)

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

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.

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

23 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2010

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.

Notes to the Consolidated Financial Statements continued

As at 31 December 2010

24 RESTRICTED INVESTMENT ACCOUNT

	Units of Restricted Investment Portfolio					Total USD '000
	Cash USD '000	Marketable Equity Securities Portfolio USD '000	Unlisted Securities Portfolio USD '000	Real Estate Portfolio USD '000	Sukuks Portfolio 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.

Capital Management House BSC(c)
Basel II - Pillar III Disclosures 31 December 2010

energy to succeed



Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

1 BACKGROUND

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 from 7 October 2009 the CBB has 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, 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 deposits products and unrestricted customer accounts.

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

The Board of Directors seeks to optimize the Bank's performance by enabling the various group business units to realize the Group's business strategies and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group's risk policy framework.

The Public Disclosures under this section have been prepared in accordance with the CBB's requirements outlined in the Public Disclosure Module Requirements ("PD:") Section PD - 1 Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that it maintains healthy capital ratios in order to support its business and to maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of its activities. In order to maintain and adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of growth expectations of the business and future sources and uses of funds. The Bank's regulator, CBB requires the Bank to maintain a ratio of 15% of total risk weighted assets as the minimum regulatory capital. To assess the capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardized Approach for its credit risk, Basic Indicator Approach for its Operational Risk and the Standardized Measurement Approach for its Market Risk.

Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

2 CAPITAL ADEQUACY (continued)**Table 1 - Capital Structure (PD 1.3.12, 1.3.13, 1.3.15)***

	<i>Tier 1 USD '000</i>	<i>Tier 2 USD '000</i>
Issued and fully paid ordinary shares	105,000	
Less: Employee stock incentive program funded by the bank	(4,432)	
Share premium	17,912	
General reserve	563	
Statutory reserve	2,180	
Other reserves	371	
Retained earnings brought forward	629	
Unrealized gains arising from fair valuing equity through statement of income 45% only	3,168	
Less: Current year cumulative net losses	(9,972)	
Less: Unrealized gross losses arising from fair valuing equity securities	(3,293)	
Tier 1 Capital before PCD deductions	112,126	
Unrealized gains arising from fair valuing equity securities (45% only)		89
Tier 2 Capital before PCD deductions		89
Regulatory deductions		
Excess amount over maximum permitted large exposure limits		(6,553)
Total Deductions		(6,553)
Net Available capital	112,126	(6,464)
Total Eligible Capital Basel III (Tier 1 and Tier 2)		105,662

* For the purposes of guidance we have cross referenced every disclosure with the relevant paragraph number of the CBB's Public Disclosure Requirement Module.

Table 2 - Capital Requirement by type of Islamic financing contracts (PD 1.3.17)

The following table summarizes the credit risk exposures as per the standardized approach and related capital requirements by type of Islamic financing contracts:

	<i>Amount of exposures USD '000</i>	<i>Risk weighted assets USD '000</i>	<i>Capital requirement 12% USD '000</i>
Claims on Banks	37,882	7,576	909
Claims on Corporates owned by Bahrain Government	3,629	-	-
Equity investments	30,888	42,911	5,149
Holdings of real estate	41,907	83,814	10,058
Impaired & Past due facilities	500	500	60
Other assets and Specialized financings	55,362	100,868	12,104
Cash items	1	-	-
	170,169	235,669	28,280

Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

2 CAPITAL ADEQUACY (continued)**Table 3 - Capital requirement for market risk (PD 1.3.18)**

The following table summarizes the exposures subject to standardized measurement approach of market risk and related capital requirements:

	<i>Self Financed USD '000</i>	<i>Capital requirement 12% USD '000</i>
Market Risk - Standardized measurement approach		
Price risk	2,438	293
Equity position risk	1,095	131
Sukuk risk	1,268	152
Foreign Exchange risk	1,889	227
Total of Market Risk - Standardized Measurement Approach	6,690	803
Multiplier		
	12.50	12.50
	83,625	10,035
Eligible portion for the purpose of the calculations	100%	100%
Risk weighted exposures to be used in CAR calculation	83,625	10,035

Table 4 - Capital requirements for operational risk (PD 1.3.19 & PD 1.3.30 (a&b))

The following table summarizes the operational risk exposures subject to basic indicator approach of operational risk and related capital requirements:

	<i>Capital Charge USD '000</i>
Indicators of Operational risk	
Average gross income (three previous years)	9,045
Multiplier	12.5
	113,063
Eligible portion for purposes of calculation	15%
RISK WEIGHTED EXPOSURE	16,959

Table 5 - Capital Adequacy Ratios (PD 1.3.20)

The following table summarizes the Capital Adequacy Ratios for total Capital and Tier 1 Capital

	<i>Total capital adequacy ratio</i>	<i>Tier 1 capital adequacy ratio</i>
Top consolidated level	31.42%	31.42%

3 RISK MANAGEMENT

3.1 Group wide Risk Management Objectives

The risk management objective of the Group is to identify, capture, monitor and manage various dimensions of risk with the objective of protecting asset values and income streams such that the interest of Group's shareholders (and others to whom the Group owes liability) are safeguarded, while the returns are intended to optimize the Group's shareholder return, with the risk exposure maintained within the self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategies. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategies to manage these risks.

In addition to satisfying the minimum regulatory capital requirements of the CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels and consequently is in the process of developing an Internal Capital Adequacy assessment Plan (ICAAP) framework. The main objective of the Group's ICAAP would be to ensure that adequate capital is retained at all times to support the risks the Group undertakes in the course of its business.

3.2 Strategies, Processes and Internal Controls

3.2.1 Group's risk strategy

The 'Capital Management Policy and Risk Charter' of the Group defines the risk strategies. These are also supported by appropriate limit structures. These policies provide an enterprise wide integrated risk management framework for the Group.

The 'Risk Charter' identifies risk objectives, policies, strategies and risk governance both at the Board and Management level. The 'Capital Management Policy' is aimed at ensuring financial stability by allocating enough capital to cover the unexpected losses.

The limit structure serves as a key component in articulating risk strategy in quantifiable risk appetite. In addition the Group is in the process of implementing various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various investment portfolios.

The Group is exposed to various types of risks, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarizes the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities, segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

During 2010 the Group has established an independent Internal Audit Function headed by a professional accountant as the Head of Internal Audit. The Internal Audit Charter has been approved by the Board and a Risk Based Internal Audit approach is being implemented. The Internal Audit Function reports to the Audit and Risk Committee of the Board.

3.2.2 Credit risk

Credit risk is the risk that one party to a financial contract may fail to discharge an obligation and cause the other party to incur financial loss. The Group controls credit risk by monitoring credit exposures with reference to limits structure and concentration of risks for counterparties, sector and geography and by continually assessing the creditworthiness of counterparties.

3.2.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments may fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The Group has set limits on the risk that may be accepted.

The Group is in the process of developing techniques to carry out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio. The Group's management believes that the Group is not exposed to material market risk sensitive assets.

3 RISK MANAGEMENT (continued)

3.2.4 Equity Price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

3.2.5 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates may affect future profitability or the fair values of financial instruments. The Group's management believes that the Group is not exposed to material profit rate risk as a result of mismatches in profit rate repricing.

3.2.6 Foreign exchange risk

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

3.2.7 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 Group is able to manage the operational risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures. Maker checker concept and dual eye principles are also applied across the Group, where possible.

3.2.8 Prepayment risk

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

3.2.9 Displaced commercial risk

Displaced commercial risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by liabilities, when the return on assets is underperforming as compared to Competitor's rates. The Group is not exposed to any displaced commercial risk.

3.3 Structure and organization of Risk Management Function

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authority include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- a) Establishing overall policies and procedures; and
- b) Delegating authority to Investment Committee, Audit and Risk Committee and the management to review and approve any risk related issues.
- c) Risk Management Committee (comprising of senior officials of the Group) is responsible to review new products and facilities from risk perspective, and review on an ongoing basis all risk related issues pertaining to all assets of the Group and submit its risk assessment and recommendations to the Management Committee (comprising of executive management and senior officers of the Group) in all risk related issues.

3 RISK MANAGEMENT (continued)

3.4 Risk Measurement and Reporting Systems

Based on the risk appetite of the Group, the Group has put in place various exposure limits (both global limits for consolidated exposure to currency, industry and geography and specific investment limits for individual assets). These limits are approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and to the Board of Directors. The limits are reviewed and revised at least on an annual basis or when it is deemed necessary.

The Group has developed a risk measurement and reporting mechanism that translates various system generated reports into a risk assessment report to monitor all limits and exposure on various types of risk.

3.5 Credit risk

3.5.1 Types of credit risk

Contracts entered into by the Group 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 by the Murabeh over the agreed period.

Mudaraba investments

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

Wakala

Wakala is an investment product similar to Mudaraba investments. However under an wakala agreement the investor ("Wakil") receives only an agreed ratio of profit derived from the investment and all excess are for the benefit of "Muwakkil".

3.5.2 Past Due and impaired islamic facilities

The Group defines facility (including investments) as non-performing facility when it is overdue for a period of 90 days or more. Non-performing facilities are placed on non-accrual basis and any income on such facilities are recognized on receipts basis only. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole of the facility extended or investment made is considered as past due and impaired and not only the overdue installments / payments.

3.5.3 Definition of Geographical area

The geographical distribution of the exposures are monitored by the Group's Financial Control Department and reported to the Management committee on an ongoing basis and the Audit and Risk Committees of the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolio.

3.5.4 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry or geographic region. As per CBB's single obligor regulations, banks incorporated in the Kingdom of Bahrain and licensed by CBB are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or a group of connected counterparties, exceeding 15% of the regulatory capital base.

The Group's policy and procedures include specific guidelines to focus on maintaining a diversified portfolio and all identified concentration of risks are controlled and managed accordingly.

Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

3 RISK MANAGEMENT (continued)

3.5.5 Large Exposure

Large exposure is any exposure whether direct, indirect to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's regulatory capital base.

Prior written approval from the CBB is required in the following cases:

- a) If any counterparty (single/group) exposure exceeds 15% of Group's regulatory capital base; and:
- b) If any facility (new/extended) to an employee is equal to or above BD 100,000 (or equivalent)

3.5.6 Related party transactions

The disclosure relating to related party transactions has been made in the financial statements for the period ended 31 December 2010. These statements are also included on the website of the Group. All related party transactions have been made on arm's length basis.

It is the policy of the Group to request and obtain Board representation in the Investment Special Purpose Vehicles ("SPV") and the Board representation is primarily to monitor and manage the investments to the best interest of the shareholders of the Group. (These investments are also included in the above disclosure in the interim condensed financial statements for the period ended 31 December 2010).

3.5.7 Credit Risk Mitigation

Credit risk mitigation refers to use of a number of techniques, such as collaterals, guarantees, credit derivatives (shari'a compliant contract) to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collateral, netting agreements, guarantees and credit derivatives (Shari'a compliant contract).

The Group generally extends Islamic facilities or initiates equity investments only when supported by adequate underlying collateral assets and / or audited financial statements. Investments and facilities without adequate tangible collateral assets are considered only when audited financial statements reveal satisfactory financial position/ repayment ability and the facility are properly structured supported by cash flow projections, fair value projections, assignments, guarantees, etc. as appropriate. Additionally significant equity investments in new ventures are supported by Board representations to monitor the investment through its holding period. (Facilities to non corporate entities without audited financial statements is discouraged and is approved only on an exceptional basis after careful analysis of the quality of customer, market reputation etc.)

Generally the Group ensures the following with respect to an acceptable collateral or underlying asset for facilities granted by the Group.

- a. The assets must be maintaining their value during the holding period of the investment,
- b. Such assets should be easily convertible into cash, if required (liquidity),
- c. There should be reasonable market for the assets (marketability), and
- d. The group should be able to enforce its rights over the asset if necessary (enforceability),

The Legal department ensures the satisfactory evidences of legal and physical ownership of the underlying assets supporting the investment or the facility.

The Financial Control Department with the assistance of Investment Department ensures periodic valuation of the underlying assets (including real estate) and obtain external valuations where applicable and submit periodic reports on the adequacy or otherwise of the underlying assets to the Management Committee.

Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

3 RISK MANAGEMENT (continued)**Table 6 - Credit Risk Exposure (PD 1.3.23)**

The following table summarizes the amount of gross funded credit exposure as at 31 December 2010 and average gross exposure for the year ended on 31 December 2010 and funded by own capital. The average gross funded exposure is calculated on the month end balances:

	<i>Total gross credit exposure USD 000</i>	<i>Average gross exposure over the period USD 000</i>
Funded		
Cash and bank balances	894	1,875
Due from financial institutions	37,006	26,150
Investments	115,034	125,325
Non-current assets held for sale	1,614	135
Other assets	961	877
Sub total	155,509	154,362
Unfunded / commitments		
Investment commitments	11,785	1,928
Foreign Exchange commitments	461	1,442
Other commitments	1,078	1,237
Sub total	13,324	4,607
Total credit risk exposure	168,833	158,969

Table 7 - Credit Risk - Geographic Breakdown (PD 1.3.23 (b))

The following table summarizes the geographical distribution of exposures, broken down into significant areas by major types of credit exposures:

	<i>BAHRAIN USD 000</i>	<i>GCC USD 000</i>	<i>MENA USD 000</i>	<i>AMERICA / EUROPE USD 000</i>	<i>Total USD 000</i>
Funded					
Cash and bank balances	363	69	1	461	894
Due from financial institutions	26,256	10,750	-	-	37,006
Investments	66,168	21,335	19,070	8,461	115,034
Non-current Assets held for sale	1,326	288	-	-	1,614
Other assets	747	155	59	-	961
Total	94,860	32,597	19,130	8,922	155,509
Unfunded / commitments					
Investment commitments	-	11,406	379	-	11,785
Foreign Exchange commitments	-	-	-	461	461
Other commitments	1,078	-	-	-	1,078
	1,078	11,406	379	461	13,324

Basel II - Pillar III Disclosures continued

for the year ended 31 December 2010 (Audited)

3 RISK MANAGEMENT (continued)**Table 8 - Credit Risk - Industry Breakdown (PD 1.3.23 (c))**

The following table summarizes the distribution of exposures by industry, broken down by major types of credit exposures:

Industry sector	Real Estate USD '000	Financial services USD '000	Transportation USD '000	Energy & Utilities USD '000	Others USD '000	Total USD '000
Cash & bank balances	-	894	-	-	-	894
Due from financial institutions	-	37,006	-	-	-	37,006
Investments	41,907	28,448	4,048	38,860	1,771	115,034
Non-current assets held for sale	-	-	1,614	-	-	1,614
Other assets	217	298	50	62	334	961
Total	42,124	66,646	5,712	38,922	2,105	155,509
Investment commitments	-	-	-	379	11,406	11,785
Foreign Exchange commitments	-	461	-	-	-	461
Other Commitments	-	-	-	-	1,078	1,078
	-	461	-	379	12,484	13,324

Credit risk - Intra group transactions (PD 1.3.23 (d))

The transactions with subsidiaries are as follows:

- 1) Tamkeen Investment Company B.S.C.(c) : 100% Subsidiary**

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 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.
- 2) Triple Seven Aviation Capital Ltd. : 97% Subsidiary**

During the year the Bank has incorporated another wholly owned subsidiary "Triple Seven Aviation Capital Ltd". The subsidiary is not operational as at 31 December 2010. The subsidiary will hold a private equity investment which will be held jointly by the Bank along with its portfolio clients. As at 31 December 2010, USD 288 thousands has been invested in this Company.
- 3) Suffun Investment Company : 100% Subsidiary**

During the year the Bank has incorporated another wholly owned subsidiary "Suffun Investment company". The subsidiary is not operational as at 31 December 2010. The subsidiary will hold a private equity investment which will be held jointly by the Bank along with its portfolio clients. As at 31 December 2010, USD 1,326 thousands has been invested in this Company.

Basel II - Pillar III Disclosures continued

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3 RISK MANAGEMENT (continued)**Table 9 - Credit Risk - concentration of risk (PD 1.3.23(f))**

The following table summarizes the disclosure for concentration of risk to individual counterparties or group of connected counterparties in excess of 15% of regulatory capital:

	USD '000	% of total eligible capital
Counterparty 1	19,448	17.32%
Counterparty 2	18,482	16.47%

Credit risk - Residual contractual maturity (own capital (PD 1.3.23 (g)))

The residual contractual maturity of the Bank's own capital and breakdown of the whole credit portfolio, by major type of credit exposures are disclosed under Note 20 to the Consolidated Financial Statements for the year ended 31 December 2010.

Table 10 - Credit Risk - Impaired facilities and allowances (own capital by industry and geographic sector (PD 1.3.23 (h and i)))

	Own Capital									
	Ageing Past Due					Specific allowances				Collective provisions (note below) USD '000
	Impaired facilities USD '000	Less than 90 days USD '000	3 to 12 months USD '000	1 to 3 years USD '000	Over 3 years USD '000	Balance at the beginning of the year USD '000	Charges during the year USD '000	Charge off during the year USD '000	Balance at the end of the year USD '000	
Due from financial institutions (Bahrain)	2,000	-	-	2,000	-	1,500	-	-	1,500	-
Unquoted equity shares (USA) (note below)	4,346	-	-	-	4,346	2,608	1,086	-	3,694	-
Quoted equity Securities (UK)	1,065	-	-	1,065	-	770	11	-	781	-
Quoted equity securities (Bahrain)	4,900	-	4,900	-	-	-	1,709	-	1,709	-
Unquoted equity securities (Bahrain)	4,123	-	-	4,123	-	-	1,647	-	1,647	-
Others (not specific to a geographic area)	-	-	-	-	-	-	-	-	-	1,400
	16,434	-	4,900	7,188	4,346	4,878	4,453	-	9,331	1,400

Notes:

Collective provisions represent provisions against exposures which, although not specifically identified, have a greater risk of default than when originally granted. These provision were recorded during the year ended 31 December 2009. As per management's assessment the amount of collective provision was increased by USD 800 thousands as at 31 December 2010.

During 2010, one of the Bank's investment in an unquoted Sukuk was surrendered and under the terms of conversion agreement it was converted to the unquoted shares of an SPV specifically formed to acquire the assets and liabilities of the Sukuk. The Group has transferred the cost and impairment provisions relating to the Sukuk to the shares acquired in the SPV under the conversion agreement.

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3 RISK MANAGEMENT (continued)

	<i>Own Capital</i>							
	<i>Industry Sector</i>			<i>Total USD '000</i>	<i>Geographic Sector</i>			<i>Total USD '000</i>
	<i>Financial institutions USD '000</i>	<i>Manufac- turing USD '000</i>	<i>Oil & gas USD '000</i>		<i>United States USD '000</i>	<i>United Kingdom USD '000</i>	<i>Bahrain USD '000</i>	
Due from financial institutions	1,500	-	-	1,500	-	-	1,500	1,500
Unquoted equity shares International	-	-	3,694	3,694	3,694	-	-	3,694
Quoted equity Securities International	781	-	-	781	-	781	-	781
Quoted equity securities local	1,709	-	-	1,709	-	-	1,709	1,709
Unquoted equity securities local	1,366	281	-	1,647	-	-	1,647	1,647
	5,356	281	3,694	9,331	3,694	781	4,856	9,331

Credit Risk - Restructured islamic financing contracts (PD 1.3.23(j))

During April 2010, one of the Bank's investment in an unquoted sukuk investment was surrendered and under the terms of conversion agreement was converted to the unquoted shares of an SPV formed to acquire the assets and liabilities of the Sukuk. The Group has transferred the cost and impairment provisions relating to the Sukuk to the shares acquired under conversion agreement. Thus the gross exposure under sukuk (USD 4,346 thousands) has been considered as the cost of new equity shares and the impairment provision of USD 3,694 thousands relating to sukuk was recognised against the new shares resulting in net book value of USD 652 thousand. The sukuk was held on a non accrual basis and therefore the future impact on the income is considered as 'Nil' due to this restructuring.

3.6 MARKET RISK**3.6.1 Introduction**

The Group has adopted the definition of market risk as defined per CBB rulebook which is "the risk of losses in on- and off-balance-sheet positions arising from movements in market prices".

3.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets or equity markets. A single transaction or financial product may be subject to any number of these risks.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of the financial instruments.

Foreign exchange risk

Foreign exchange 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.

Equity price risk

Equity price risk is the risk that the fair values of equities may decrease as a result of changes in the levels of equity indices and the value of individual equities.

Basel II - Pillar III Disclosures continued

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3 RISK MANAGEMENT (continued)**3.6.3 Market risk strategy**

The Group's Board is responsible for approving and reviewing the risk strategies and significant amendments to the risk policies and the senior management is responsible for implementing the risk strategy approved by the Board.

Inline with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

1. The Group manages its market risk exposure by evaluating each new product / activity with respect to the market risk associated with it;
2. The Group proactively measure and continually monitor the market risk in its portfolio;
3. The Group at all time hold sufficient capital in line with CBB Pillar 1 regulatory capital requirement;
4. The Group has established a market risk appetite which is quantified and established as market risk limit structure;
5. The Group has established a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, maximum / stop loss limits, factor sensitivity limits, VaR limits and maturity limits;
6. The Group clearly identifies the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

Table 11 - Market Risk capital requirements (PD 1.3.27 (b))

The following table summarizes the capital requirement for foreign exchange risk as of 31 December 2010:

	<i>Foreign exchange risk USD '000</i>
Foreign exchange capital requirements	23,608
Maximum value	24,069
Minimum value	23,608

3.7 Operational Risk**3.7.1 Introduction**

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to operate, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. The Group can not expect to eliminate all operational risks, but through a control frame work and by monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures. Maker checker function and dual eye principles are applied across the Group, where applicable.

Table 12 - Equity position risk in banking book (PD 1.3.31 (b), (c) and (d))

	<i>Total Gross exposure USD '000</i>	<i>Average Gross exposure* USD '000</i>	<i>Publically traded USD '000</i>	<i>Risk weighted assets USD '000</i>	<i>Capital requirement 12% on RWA USD '000</i>
Equity investments	114,849	106,402	6,842	199,754	23,970
Sukuks **	13,584	20,986	6,872	24,485	2,938
Total	128,433	127,388	13,714	224,239	26,909

* Average balances are computed on month end balances.

** Sukuks are considered as tradeable based on bid offer quotes in Bloomberg.

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3 RISK MANAGEMENT (continued)**Table 13 - Equity gains or losses in banking book (PD 1.3.31 (d) and (e))**

	<i>USD '000</i>
Cumulative realized loss arising from sales or liquidations in the reporting period	1,941
Cumulative realized gain arising from sales or liquidations in the reporting period	787
Total unrealized losses recognized in the balance sheet but not through statement of income	3,293
Total unrealized gains recognized in the balance sheet but not through statement of income	197
Total unrealized losses included in Tier 1 capital	3,293
Total unrealized gains included in Tier 1 capital	3,168
Unrealized gains included in Tier 2 capital	89

3.8 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its 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 Group is targeting to build a large customer base with sound credit standing and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and commodity murabaha. Liquidity position is monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO) and is also compared to the limits set by the Group's Board. All exceptions are reported for adequate corrective actions.

Table 14 - Liquidity ratios (PD 1.3.37)

The following table summarizes the liquidity ratios:

	<i>31 December 2010</i>	<i>31 December 2009</i>	<i>31 December 2008</i>	<i>31 December 2007</i>	<i>31 December 2006</i>
Short term assets less than 1 Year / Short term Liability less than 1 Year	1.33	2.00	5.88	1.00	0.09
Commodities Murabaha / Total assets	10.04%	2.71%	23.60%	23.09%	0.00%
Liquid Assets / Total Assets	24.16%	8.72%	36.36%	31.14%	0.92%
Liquid Assets / Total Assets *	32.91%	28.18%	38.73%	31.74%	2.32%

* The Management evidenced that certain sukuk and shares are tradable or liquid and the ratio is calculated after including the tradeable sukuk and shares as liquid assets.

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3 RISK MANAGEMENT (continued)**Table 15 - Maturity analysis of assets and liabilities and equity (PD 1.3.38)**

The table below shows an analysis of assets, liabilities and equity analyzed according to when they are expected to be recovered or settled:

	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	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
Customers current account	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	-	-

3.9 Profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance (e.g. deposits etc.).

Senior management identifies the source of profit rate risk exposures based upon the current as well as forecasted statement of financial position structure of the Group. The profit rate risk may arise due to transactions relating to Murabaha, mudaraba, wakala and investment in Sukuks.

The management believe that the Group is not exposed to any significant profit rate risk as a result of mismatches of profit rate repricing of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

Profit rate risk in Banking book (PD 1.3.40 (b))

The effect of value of assets, liabilities and economic capital for a benchmark of 100 basis point in profit rates are disclosed under Note 21 to the Consolidated Financial Statements for the year ended 31 December 2010.

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3 RISK MANAGEMENT (continued)**Table 16 - Quantitative indicators of Financial Performance and position (PD 1.3.9)**

	2010	2009	2008	2007	2006 *
Return on average equity	(9.94%)	1.08%	27.71%	11.81%	2.44%
Return on average assets	(6.55%)	0.75%	12.26%	7.20%	1.09%
Cost to Income ratio	482.41%	57.97%	31.01%	44.56%	66.45%

* The Group commenced its operations in the year 2006 and income ratio are annualized on the basis of 7 months operation for the year 2006.

4 UNRESTRICTED INVESTMENT ACCOUNTS (PD 1.3.32 & PD 1.3.33)

The CBB upgraded the Bank's license from 'Investment Firm - Category 1 license' to 'Wholesale Islamic Investment Bank License' on 7 October 2009. Under its previous license, The Bank did not offer any Unrestricted Investment account product in accordance with the Investment Firm license and intends to structure Unrestricted Investment products during 2010 under its new license.

CBB requires the Group to maintain capital to cover the price risk arising from 30% of the assets funded by Unrestricted Investment Accounts (URIA) on a pro-rata basis. As at 31 December 2010 the Bank has no exposure under this requirement.

The Group is currently in the process of developing written policies and procedures applicable to Unrestricted Investment Accounts. URIA funds are intended to be invested and managed in accordance with Shari'a requirements.

5 RESTRICTED INVESTMENT ACCOUNTS ("RIA") (PD 1.3.34)

The Bank holds Investments of portfolio customers under fiduciary relationship and thus RIA assets + liabilities, are held Off- Balance sheet and separate portfolio accounts are maintained for each client. The Bank currently holds only custody accounts and performs only custodian duties.

Although the underlying investments are held in the name of the Bank, these assets are not consolidated in the Group's financial statements and the aggregated exposures as at 31 December 2010 are disclosed under Note 24 to the Consolidated Financial Statements for the year ended 31 December 2010.

6 CORPORATE GOVERNANCE AND TRANSPARENCY

6.1 The Organisation Chart of the Group is disclosed in the Annual report which forms part of this disclosure. Currently, in the absence of COO, CPO and Risk Manager, their functions are performed by managers of the respective department.

6.2 The profiles of Board of Directors are disclosed in the Annual report which forms part of this disclosure. No Board member has more than one Directorship of a Retail Bank and a Wholesale Bank. Remunerations of the Board members is approved at the AGM. The Nomination and Remuneration Committee is empowered by the Board to approve all management incentives.

Mr. Abdulhakeem Y. Alkhayaat was appointed as Vice-Chairman with effect from 24 March 2010.

Mr. Khalid M. Najibi was appointed as Managing Director with effect from 17 February 2010.

6.3 The profiles of Shari'a Board members are disclosed in the Annual Report which forms part of this disclosures.

6.4 The profiles of members of Executive, Management and other Committees are disclosed in the Annual Report which forms part of these disclosures.