Consolidated Financial Statements

For the year ended 31 December 2009

Contents

Independent Auditors' Report

to the shareholders of Unicorn Investment Bank B.S.C. (c)

We have audited the accompanying consolidated financial statements of Unicorn Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity, cash flows and restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, to operate in accordance with Islamic Shari'ah and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2009 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

Ernst + Young

30 March 2010
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report
to the shareholders of Unicorn Investment Bank

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts relating to the transactions conducted by Unicorn Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2009. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

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

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2009 are in compliance with the rules and principles of Islamic Shari'ah.

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.

c) The Shari'ah Board advised the Bank's management that all earnings that have been realized from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Dr. Khalid Mathkoor Al-Mathkoor
Chairman of the Shari'ah Supervisory Board

30 March 2010 G

Consolidated Statement of Financial Position

At 31 December 2009

(Amounts in United States Dollars thousands)

	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and balances with banks	3	**135,918**	23,560
Due from financial and non-financial institutions	4	**301,043**	396,614
Investment securities	5	**247,999**	328,560
Investments in associates and joint venture	6	**151,348**	24,427
Investment properties	7	**29,164**	38,538
Inventories		**-**	10,695
Other assets	9	**116,710**	57,958
Premises and equipment		**8,797**	6,778
Assets held for sale	10	**40,622**	39,187
Goodwill and intangible assets	11	**2,018**	52,453
TOTAL ASSETS		**1,033,619**	978,770
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial and non-financial institutions	12	**521,423**	422,447
Subordinated murabaha	13	**50,000**	-
Other liabilities	14	**24,988**	88,856
Liabilities relating to assets held for sale		**13,556**	13,556
TOTAL LIABILITIES		**609,967**	524,859
EQUITY			
Share capital	15	**215,578**	183,740
Share premium	16	**141,708**	71,216
Statutory reserve	17	**15,580**	15,580
Fair value reserve		**10,280**	61,765
Foreign currency translation reserve		**(6,761)**	(5,606)
Retained earnings		**3,324**	2,945
Total equity attributable to the shareholders of the parent		**379,709**	329,640
Advances for proposed increase in share capital		**-**	110,059
Non-controlling interests		**37,321**	7,901
Non-controlling interests held for sale		**6,622**	6,311
TOTAL EQUITY		**423,652**	453,911
TOTAL LIABILITIES AND EQUITY		**1,033,619**	978,770

The consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2010 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

Majid Al Sayed Bader Al-Refai
Managing Director & Chief Executive Officer

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	Notes	31 December 2009	31 December 2008
Continuing operations			
Investment banking fees	19	**74,146**	24,778
Other investment banking income	20	**18,999**	111,604
Investment banking income		**93,145**	136,382
Net expense from financial and non-financial institutions	21	**(9,327)**	(2,836)
Net income from non-banking activities	22	**21,056**	9,534
Share of loss of associates		**(3,662)**	(2,010)
Total income		**101,212**	141,070
Operating expenses	23	**(80,213)**	(63,492)
Profit before impairments and fair value write-downs & write-backs		**20,999**	77,578
Impairments	24	**(2,900)**	(6,950)
Write-downs on investment securities	24	**(22,511)**	(31,822)
Write-backs of fair value write-downs made in prior year	24	**8,812**	-
Profit for the year from continuing operations and before tax		**4,400**	38,806
Profit from assets held for sale		**1,246**	-
PROFIT BEFORE TAX		**5,646**	38,806
Income tax expense		**(3,411)**	(3,795)
NET PROFIT		**2,235**	35,011
Attributable to:			
Shareholders of the parent		**(5,079)**	34,272
Non-controlling interests		**7,003**	739
Non-controlling interests held for sale		**311**	-
		2,235	35,011

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	31 December 2009	31 December 2008
Net Profit	**2,235**	35,011
Other comprehensive loss:		
Exchange differences on translating foreign operations	**(1,149)**	(6,405)
Changes in investment securities fair value	**(190)**	(6,365)
Share of associates	**175**	6
Other comprehensive loss for the year	**(1,164)**	(12,764)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,071**	22,247
Attributable to:		
Shareholders of the parent	**(6,253)**	22,030
Non-controlling interests	**7,013**	217
Non-controlling interests held for sale	**311**	-
	1,071	22,247

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	Attributable to the shareholders of the parent								Advances for proposed increase in share capital	Non-controlling interests	Non-controlling interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed dividend	Total				
At 1 January 2009	**183,740**	**71,216**	**15,580**	**61,765**	**(5,606)**	**2,945**	**-**	**329,640**	**110,059**	**7,901**	**6,311**	**453,911**
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**(19)**	**(1,155)**	**(5,079)**	**-**	**(6,253)**	**-**	**7,013**	**311**	**1,071**
Transfer from fair value reserve	**-**	**-**	**-**	**(5,458)**	**-**	**5,458**	**-**	**-**	**-**	**-**	**-**	**-**
Business combination related movements	**-**	**-**	**-**	**(46,008)**	**-**	**-**	**-**	**(46,008)**	**-**	**-**	**-**	**(46,008)**
Issuance of additional shares (note 15)	**31,838**	**95,514**	**-**	**-**	**-**	**-**	**-**	**127,352**	**(110,059)**	**-**	**-**	**17,293**
Equity transaction costs incurred	**-**	**(25,022)**	**-**	**-**	**-**	**-**	**-**	**(25,022)**	**-**	**-**	**-**	**(25,022)**
Loss of controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(34,742)**	**-**	**(34,742)**
Non-controlling interests arising on business combination	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,149**	**-**	**57,149**
At 31 December 2009	**215,578**	**141,708**	**15,580**	**10,280**	**(6,761)**	**3,324**	**-**	**379,709**	**-**	**37,321**	**6,622**	**423,652**
At 1 January 2008	174,704	70,495	12,153	36,777	277	20,027	26,206	340,639	-	7,684	-	348,323
Total comprehensive (loss)/income for the year	-	-	-	(6,359)	(5,883)	34,272	-	22,030	-	217	-	22,247
Dividend paid	-	-	-	-	-	-	(26,206)	(26,206)	-	-	-	(26,206)
Transfer to consolidated statement of income on sale	-	-	-	(17,201)	-	-	-	(17,201)	-	-	-	(17,201)
Transfer to statutory reserve	-	-	3,427	-	-	(3,427)	-	-	-	-	-	-
Transfer to fair value reserve	-	-	-	48,548	-	(48,548)	-	-	-	-	-	-
Employees share based incentives scheme	-	-	-	-	-	621	-	621	-	-	-	621
Issuance of additional shares	9,036	721	-	-	-	-	-	9,757	-	-	-	9,757
Advances for proposed increase in share capital	-	-	-	-	-	-	-	-	110,059	-	-	110,059
Controlling interests held for sale acquired	-	-	-	-	-	-	-	-	-	-	6,311	6,311
At 31 December 2008	**183,740**	**71,216**	**15,580**	**61,765**	**(5,606)**	**2,945**	**-**	**329,640**	**110,059**	**7,901**	**6,311**	**453,911**

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	31 December 2009	31 December 2008
OPERATING ACTIVITIES		
Net profit for the year	**2,235**	35,011
Adjustments for:		
Investment banking fees	**-**	(3,440)
Gain on sale of investment securities	**(5,440)**	(53,697)
Fair value gain on investment securities	**(4,733)**	(44,381)
Fair value loss/(gain) on investment properties	**9,374**	(4,167)
Impairment charges	**2,900**	6,950
Fair value write-downs on investment securities	**22,511**	31,822
Write-backs of fair value investment write-downs made in prior period	**(8,812)**	-
Share of loss of associates	**3,662**	2,010
Profit from assets held for sale	**(1,246)**	-
Bad debt	**5,000**	-
Share-based payments	**1,375**	1,643
Depreciation and amortisation	**3,027**	1,793
	29,853	(26,456)
Changes in:		
Due from financial and non-financial institutions	**(3,106)**	-
Other assets	**(55,901)**	(38,101)
Inventories	**2,869**	(28)
Due to financial and non-financial institutions	**119,276**	323,539
Other liabilities	**(73,444)**	47,668
Proceeds from sale of investment securities	**62,265**	214,502
Purchase of investment securities	**(119,388)**	(292,530)
Purchase of assets held for sale	**-**	(19,320)
Net cash (used in) from operating activities	**(37,576)**	209,274
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(8,566)**	(3,651)
Investment in associates	**(12,527)**	(1,325)
Net cash on disposal of subsidiary	**(89,310)**	-
Acquisition of subsidiaries, net of cash acquired	**111,586**	-
Net cash from (used in) investing activities	**1,183**	(4,976)
FINANCING ACTIVITIES		
Advances for proposed increase in share capital	**-**	110,059
Dividend paid	**-**	(17,471)
Subordinated Murabaha	**50,000**	-
Net cash from financing activities	**50,000**	92,588
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13,607**	296,886
Foreign currency translation adjustments	**74**	(2,662)
Cash and cash equivalents at the beginning of the year	**420,174**	125,950
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**433,855**	420,174
Cash and cash equivalents comprise:		
Cash and balances with banks (note 3)	**135,918**	23,560
Due from financial and non-financial institutions	**297,937**	396,614
	433,855	420,174

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Restricted Investment Accounts

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

	At 1 January 2009	Deposit	Gross Income	Wakil Fee	At 31 December 2009
Wakala contract	**-**	**240,000**	**188**	**(56)**	**240,132**

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

1. CORPORATE INFORMATION

Unicorn Investment Bank B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No. 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain. In accordance with the revised banking regulations of the Central Bank of Bahrain, the Bank was granted a Wholesale Bank (Islamic Principles) Licence on 24 April 2007. The Bank's registered office is at the 3rd to 7th floors of Building No. 2304, Road No. 2830, Seef District 428, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that meets specific investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory; and
- developing and managing liquidity products and other treasury products and services.

The Group's Shari'ah Supervisory Board consists of seven Islamic scholars who review the Group's compliance with general Shari'ah principles and guidelines. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with these principles.

The number of Group employees as at 31 December 2009 was 187 (2008: 491). The comparative figures include Victron Inc. employees which was deconsolidated in 2009.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities and investment properties at fair value. The consolidated financial statements are presented in United States Dollars, this being the functional currency of the Group's operations.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 36.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition up to the date of disposal or up to when control ceases to exist, as appropriate.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the consolidated statement of income in the year of acquisition.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
UIB Capital Inc.	100%	2004	United States of America
The main activities of UIB Capital Inc. are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.			
Unicorn International Islamic Bank Malaysia Berhad	100%	2004	Malaysia
Unicorn International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.			
Unicorn International Islamic Bank Malaysia Berhad was granted an investment banking licence in 2007 by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.			
Unicorn Capital Limited	100%	2006	United Arab Emirates
Unicorn Capital Limited was dissolved on 30 June 2009 due to restructuring of the Bank's operations and strategic focus.			
Unicorn Capital Menkul Değerler A.Ş.	91.9%	2007	Turkey
The main activities of Unicorn Capital Menkul Değerler A.Ş. are to provide investment consultancy, asset management, underwriting and brokerage services.			
Unicorn Capital Saudi Arabia	53.4%	2009	Saudi Arabia
Unicorn Capital Saudi Arabia ("UCSA") was granted a certificate of incorporation by the Saudi Arabia Capital Market Authority in March 2009. Its principal activities are investment banking.			

Apart from Victron Inc., which was de-consolidated during the year and UCSA, which has been consolidated during the year there have been no changes to the ownership structure.

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. Estimates and judgements are evaluated on the continuous basis, and also based on past experience including expectations of future events. The most significant use of judgments and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

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

- For investments that are actively traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated statement of financial position date.

- For unquoted investments, fair value is determined by reference to recent arm's length market transactions; current fair value of another instrument that is substantially the same; and other valuation models.

- 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 Group using current profit rates for investments with similar terms and risk characteristics.

- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

Impairment of goodwill

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on the discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rates used for extrapolation purposes.

The following standards and amendments, which became effective in 2009, are relevant to the Group:

Standard	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payment – Vesting conditions and cancellations	1 January 2009
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

IFRS 2 Share-based payments (Revised) - Vesting Conditions and Cancellations

The IASB issued amendments to IFRS 2 which clarified a) the definition of vesting conditions and prescribed the treatment for an award that is cancelled (effective 1 January 2009). The Group adopted these amendments as of 1 January 2009 and this did not have an impact on the financial position or performance of the Group.

2.3 Changes in accounting policies and disclosures

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level hierarchy, by class, for all financial instruments recognised at the fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Comparative information is not given as it is not required by the transition provisions of the amendment.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 'Segment Reporting' and is effective for annual periods commencing 1 January 2009. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 36.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard, effective for financial years beginning on or after 1 January 2009, requires changes in equity arising from transactions with shareholders of the Bank in their capacity as owners (i.e. owner changes in equity) to be presented in the consolidated statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the consolidated statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the consolidated statement of changes in equity. Comparative information has been restated so that it also conforms with the revised standard. Since this change only impacts the presentation of the consolidated financial statements, there is no impact on retained earnings.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

Foreign currency translation

The consolidated financial statements are presented in United States Dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated statement of financial position date. All differences are taken to 'Other income' or 'Other operating expenses' in the consolidated statement of income.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on non-monetary items held at fair value through profit or loss are recognised as part of fair value gains or loss and those on non-monetary items classified as held for sale are included in the fair value reserve in equity.

Group companies

As at the reporting date, the assets and liabilities of subsidiaries, associates and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the consolidated statement of financial position date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rates.

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand, balances with banks, due from financial and non-financial institutions, investment securities and receivables from clients. Financial liabilities consist of due to financial and non-financial institutions, subordinated murabaha and other liabilities.

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

Due from financial and non-financial institutions

Due from financial and non-financial institutions comprise commodity murabaha receivables. They are stated net of deferred profits and provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period.

Investment securities

Investment securities are initially recognised at fair value, and are classified as either "carried at fair value through statement of income" or "available for sale".

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)
Following the initial recognition, investment securities are remeasured using the following policies:

(i) Investments carried at fair value through statement of income
Investments are classified as "carried at fair value through statement of income" if they are designated on the date of acquisition (i.e. initial recognition) as carried at fair value through statement of income. The Group's venture capital ("VC") investments that fall under IAS 28 are also classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28. The Group's investments other than VC that fall under IAS 28 are classified as associates.

Investments classified as "carried at fair value through statement of income" are subsequently remeasured at fair value. The unrealised gains arising from the remeasurement to fair value are included in the statement of income as "other investment banking income". The unrealised fair value losses are included in the statement of income as "write-downs on investment securities". The gains and losses are transferred to/from the fair value reserve in the consolidated statement of changes in equity in accordance with AAOIFI.

(ii) Available for sale investments
Investments are classified as "available for sale" if they are not classified as carried at fair value through statement of income. They mainly include strategic equity instruments and Sukuk.

Sukuk in this category are those instruments which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the consolidated statement of income for the year. The losses arising from impairment of such investments are recognised in the consolidated statement of income and are excluded from the consolidated statement of changes in equity.

Due to financial and non-financial institutions
This represents funds payable to financial and non-financial institutions on the principles of murabaha and wakala. The amounts are stated at principal plus accrued cost payable.

Subordinated murabaha
Subordinated murabaha are based on the principles of murabaha contracts and are convertible where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash, or to satisfy the obligation other than by the exchange of cash for a fixed number of own equity shares, at the discretion of the seller. Subordinated murabaha are initially recognised at the fair value of consideration and are subsequently measured at amortised cost.

Derecognition of financial instruments
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:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial instruments (continued)

Financial liabilities

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

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of Sukuk classified as available for sale, impairment is assessed based on the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset. Profit will stop accruing from the date of impairment. If, in a subsequent year, the fair value of a Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of non-financial assets

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the statement of income only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

Offsetting of financial instruments

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

Recognition of income and expense

Income recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following bases:

Investment banking fees

Investment banking fees represent: (i) advisory and placement fees; (ii) arrangement and underwriting fees; (iii) performance fees; and (iv) structuring fees. The performance fees are recognised upon successful completion of the transaction, while the other fees are recognised when the related services are rendered.

Income from financial and non-financial institutions

Income from financial and non-financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the agreed profit.

Net non-banking activities income

Net non-banking activities income represents net income from both Victron, Inc. ("Victron") and Condor Holdings Limited ("Condor").

The revenues from Victron are derived from services, including turnkey manufacturing services where Victron purchases and schedules the materials required for completed assembly, and are recognised when Victron transfers to the buyer the significant risks and rewards of ownership of the goods. The revenues derived from consignment manufacturing services, where the customer supplies the materials for product assembly, are recognised when the services are rendered.

The revenues from Condor comprises of margin on sales of foreign currencies, gold, commission earned on the sale of travellers' cheques and income earned from banks. Margin on sales of foreign currencies and drafts is recognised as income on the accruals basis upon delivery to the customers. Commission income is recognised upon completion of services as accepted by the customer.

Other investment banking income

Other investment banking income include dividend income, fair value (write-downs)/gain on investment properties, fair value gain on investment securities, gain on sale of investment securities, management fees and other income.

Dividend income is recognised when the Group's right to receive the payment is established. Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

Expense recognition

Expenses are recognised on the following bases:

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the General Organisation for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Expense recognition (continued)

Expense due to financial and non-financial institutions

Expense due to financial and non-financial institutions are recognised on a time apportioned basis over the period of the contracts based on the principal amounts outstanding and the profit agreed with clients.

Zakah

In accordance with its Articles of Association, the Bank is not required to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable amount.

Taxation

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises: cash and balances with banks; and amounts due from financial non-financial institutions and cash in transit with an original maturity of three months or less.

Investments in associates

The Bank's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in the Bank's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The statement of income reflects the Bank's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of other comprehensive income. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

Distributions received from an associate reduce the carrying amount of investment.

The reporting dates of the associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Investment in Joint Venture

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with another entity that is subject to joint control. The joint venture is accounted for using the equity method of accounting. Under the equity method, the joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The consolidated statement of income reflects the Group's share of the results of operations of the joint venture. Where there has been a change recognised directly in the statement of comprehensive income of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income.

The reporting dates of the joint venture and the Group are identical and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Unrealised gains and losses resulting from transactions with a joint venture are eliminated to the extent of the Group's share in the joint venture.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investment properties

Investment properties are investments that earn rental income and/or are expected to benefit from capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

In accordance with AAOIFI, unrealised gains or losses are appropriated to the fair value reserve and are transferred to retained earnings only when realised.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Premises and equipment

Premises and equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation.

Assets held for sale

Assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

Business combinations and goodwill

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

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

For the purpose of impairment testing, goodwill is allocated to the cash-generating units within the Group that are expected to benefit from the synergies of the business combination.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and related goodwill is recognised in the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Share-based payments to employees

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate valuation model.

The costs of equity settled share-based payment transactions are recognised in the consolidated statement of income, over the vesting period based on the best available estimate of the number of equity instruments expected to vest.

Fiduciary assets

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Equity transaction costs

Incremental equity transaction costs are directly attributable to the issue of new shares and are shown in equity as a deduction, from share premium.

Segment reporting

IFRS8 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. The Group's segmental reporting is based on the following operating segments: Capital Markets and Treasury, Private Equity, Corporate Finance, Asset Management, Strategic Mergers and Acquisitions and other. Additional disclosures about each of these segments are shown in note 36.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Standards issued but not effective

The following standards have been issued by the International Accounting Standards Board ("IASB") but are not yet mandatory for these consolidated financial statements:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

2. ACCOUNTING POLICIES (continued)

Standards issued but not effective (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Group's 2010 financial statements.

IFRS 9 Financial Instruments Part 1: Classification and measurement

IFRS 9 was issued by IASB in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. As per IFRS 9, financial assets are required to be classified into two measurement categories: a) measured subsequently at fair value; and b) measured subsequently at amortised cost. An instrument is subsequently measured at amortised cost only if it is a Sukuk. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through the statement of income. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through the statement of comprehensive income rather than the statement of income. There is to be no recycling of fair value gains and losses to statement of income.

Adoption of IFRS 9 is mandatory from 1 January 2013, but earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

3. CASH AND BALANCES WITH BANKS

	2009	2008
Cash on hand	**27**	29
Balances with banks	**85,891**	23,531
Cash in transit	**50,000**	-
	135,918	23,560

Cash in transit relates to subordinated murabaha which has been received subsequent to the year end.

4. DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Murabaha receivables	**303,124**	396,774
Less: deferred profits	**(2,081)**	(160)
	301,043	396,614
Due from financial institutions	**188,465**	396,614
Due from non-financial institutions	**112,578**	-
	301,043	396,614

Due from financial and non-financial institutions represents murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2009 was equivalent to an average rate of 2.7% per annum (2008: 3.4% per annum).

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES

	2009	2008
Carried at fair value through statement of income (note 5.1)	**198,109**	271,171
Available for sale investments at fair value:		
Quoted (note 5.2)	**27,734**	23,305
Unquoted (note 5.3)	**22,156**	14,852
Investment-related receivables	**-**	19,232
	247,999	328,560

5.1 Investments carried at fair value through statement of income comprise:

	31 December 2009					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Agri-business	**-**	**-**	**-**	**3,275**	**-**	**3,275**
Financial services	**-**	**10,007**	**-**	**-**	**280**	**10,287**
Industrial	**-**	**20,009**	**-**	**-**	**-**	**20,009**
Oil and gas	**-**	**12,000**	**-**	**-**	**-**	**12,000**
Media	**-**	**9,013**	**-**	**-**	**-**	**9,013**
Real estate and construction	**-**	**52,493**	**-**	**-**	**6,181**	**58,674**
Technology	**-**	**-**	**56,812**	**-**	**-**	**56,812**
Managed funds	**24,369**	**-**	**-**	**-**	**3,670**	**28,039**
Total	**24,369**	**103,522**	**56,812**	**3,275**	**10,131**	**198,109**

5.1 Investments carried at fair value through statement of income comprise: (continued)

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	2,314	-	2,314
Financial services	127,015	-	-	-	276	127,291
Industrial	-	17,752	-	-	-	17,752
Media	-	14,037	-	-	-	14,037
Real estate and construction	-	38,526	-	-	6,181	44,707
Technology	-	-	39,800	-	-	39,800
Managed funds	25,270	-	-	-	-	25,270
Total	152,285	70,315	39,800	2,314	6,457	271,171

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.2 Quoted available for sale investments comprise:

	31 December 2009					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**11,783**	**-**	**-**	**-**	**11,783**
Real estate and construction	**-**	**15,951**	**-**	**-**	**-**	**15,951**
Total	**-**	**27,734**	**-**	**-**	**-**	**27,734**

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	6,423	-	-	-	6,423
Real estate and construction	-	16,882	-	-	-	16,882
Total	-	23,305	-	-	-	23,305

5.3 Unquoted available for sale investments comprise:

	31 December 2009					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**7,261**	**-**	**96**	**-**	**7,357**
Government	**-**	**2,000**	**-**	**-**	**-**	**2,000**
Real estate and construction	**-**	**6,400**				**6,400**
Oil and energy	**-**	**1,157**	**-**	**-**	**3,669**	**4,826**
Technology	**-**	**-**	**-**	**1,573**	**-**	**1,573**
Total	**-**	**16,818**	**-**	**1,669**	**3,669**	**22,156**

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	10,150	-	56	-	10,206
Oil and energy	-	1,047	-	-	3,599	4,646
Total	-	11,197	-	56	3,599	14,852

(Amounts in United States Dollars thousands)

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2009	2008
Associates:		
Dawood Islamic Bank Limited	**21,804**	11,689
t'azur B.S.C. (c)	**10,800**	12,738
Condor Holdings Limited	**89,458**	-
Total of associates	**122,062**	24,427
Joint venture:		
Victron Inc.	**29,286**	-
Total of associates and joint venture	**151,348**	24,427

The Bank has a 37.78% (2008: 22.22%) interest in Dawood Islamic Bank Limited, an unlisted Islamic commercial bank in Pakistan.

The Bank has a 25.86% (2008: 25.86%) interest in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain.

The Bank has a 45.28% (2008: 45.28%) interest in Condor Holdings Limited ("Condor"), a company based in the United Arab Emirates. Condor was incorporated to acquire Bahrain Financing Company B.S.C. (c) in Bahrain, Bahrain Exchange Company W.L.L. in Kuwait and EZ Remit in the United Kingdom (note 8).

The Bank has a 56% (2008: 80% - note 8) interest in Victron Inc., a company based in the United States of America through UII-Victron Inc., (the "joint venture") a special purpose vehicle incorporated in Delaware. Victron specialises in providing sophisticated manufacturing process technologies for complex printed circuit boards, other electronics assemblies and complete products or original equipment manufacturer.

The summarised financial information in respect of the Bank's associates and joint venture is set out below:

	2009	2008
Assets	**349,176**	172,555
Liabilities	**(203,652)**	(71,856)
Net assets	**145,524**	100,699
Share of the associates revenue and loss:		
Revenue	**1,952**	2,075
Loss for the year	**(3,662)**	(2,010)

As the joint venture was entered into on 31 December 2009, no revenue or profit has been contributed by the joint venture.

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2009 and 2008 and 1 January 2008 related to its joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

(Amounts in United States Dollars thousands)

7. INVESTMENT PROPERTIES

Investment properties comprise a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2009 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms.

8. BUSINESS COMBINATION AND DECONSOLIDATION

Condor Holdings Limited

De-facto Control

In April 2009, the Bank obtained de-facto control over Condor. Condor was incorporated to acquire a portfolio of exchange and remittance companies. Prior to the date of obtaining de-facto control, Condor had been designated as investment securities (carried at fair value through statement of income). The acquisition has been accounted for using the purchase method of accounting.

On the date of obtaining de-facto control, the fair value of the identifiable assets and liabilities of Condor were:

	Carrying value	Fair value recognised on acquisition
Cash and balances with banks	71,754	71,754
Due from financial institutions	1,860	1,860
Other assets	10,139	10,139
Premises and equipment	1,039	1,039
Total Assets	84,792	84,792
Due to financial institutions	(20,761)	(20,761)
Other liabilities	(32,673)	(32,673)
Total Liabilities	(53,434)	(53,434)
Fair value of net assets		31,358
Net identifiable assets acquired (45.28%)		**14,199**
Goodwill arising on acquisition		69,569
Cost of acquisition		**83,768**
Cash outflow on acquisition:		
Net cash and cash equivalents acquired with the subsidiary in 2009 (comprise of cash and balances with banks and due from financial institutions)		73,614
Cash paid		(83,768)
Net cash outflow		**(10,154)**

Loss of de-facto control

During 2009, the Bank ceased to have de-facto control over Condor as a result of re-composition in Condor's Board of Directors. Accordingly the Bank classified the investment as an associate accounted for under the equity method (note 6). No gain or loss was recognised on loss of control.

(Amounts in United States Dollars thousands)

8. BUSINESS COMBINATION AND DECONSOLIDATION (continued)

Victron Inc.

Loss of Control

During 2009, the Group entered into a joint venture with a non-related party by disposing of 30% equity interest of UII Victron Inc. ("UII Victron") - a company that holds 80% equity interest in Victron Inc. ("Victron"). No gain or loss was recognised on disposal. Subsequent to loss of control this is now classified as an investment in a joint venture under IAS31 (note 6).

9. OTHER ASSETS

	2009	2008
Accounts receivable from Victron Inc.	**-**	14,120
Capital raising costs	**-**	6,989
Deal related advances	**9,490**	9,680
Dividend receivable	**11,993**	-
Fees and recoverable expenses outstanding from clients (note 9.1)	**72,514**	16,625
Prepayments and advances	**4,047**	4,692
Receivable from sale of investments (note 9.2)	**13,765**	-
Other	**4,901**	5,852
	116,710	57,958

9.1 Out of US$72.5 million, the Bank has received US$48.5 million subsequent to the year end.

9.2 The Bank has received this amount subsequent to the year end.

10. ASSETS HELD FOR SALE

In October 2008, the Bank acquired a 75% stake in a leading independent oil services company (the "Company") based in the Williston Basin in the United States of America. As at 31 December 2009, the Company's total assets and liabilities amounted to US$40.6 million (2008: US$39.2 million) and US$13.6 million (2008: US$13.6 million) respectively, and the non-controlling interest resulting from the acquisition of the Company amounted to US$6.6 million (2008: US$6.3 million).

During 2009, certain circumstances arose that were beyond the Bank's control previously considered unlikely and, as a result, the Company classified as held for sale was not disposed during 2009. Furthermore, the Bank is committed to selling the asset, the asset is being actively marketed at a reasonable price and the Bank has initiated an active program to locate buyers.

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(Amounts in United States Dollars thousands)

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2009	**44,586**	**8,530**	**53,116**
Additions due to acquisition of subsidiary	**69,569**	**-**	**69,569**
Disposals due to deconsolidation of subsidiaries	**(112,167)**	**(8,530)**	**(120,697)**
Exchange adjustment	**30**	**-**	**30**
At 31 December 2009	**2,018**	**-**	**2,018**
Amortisation:			
At 1 January 2009	**-**	**(663)**	**(663)**
Amortisation charge for the year	**-**	**(663)**	**(663)**
Disposal due to deconsolidation	**-**	**1,326**	**1,326**
At 31 December 2009	**-**	**-**	**-**
Net book value:			
At 1 January 2009	**44,586**	**7,867**	**52,453**
At 31 December 2009	**2,018**	**-**	**2,018**
Cost:			
At 1 January 2008	45,110	8,530	53,640
Exchange adjustment	(524)	-	(524)
At 31 December 2008	44,586	8,530	53,116
Amortisation:			
Amortisation charge for the year	-	(663)	(663)
At 31 December 2008	-	(663)	(663)
Net book value:			
At 1 January 2008	45,110	8,530	53,640
At 31 December 2008	44,586	7,867	52,453

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the following subsidiaries that are considered as single cash-generating units.

The carrying amount of goodwill is as follows:

	2009	2008
Victron Inc.	**-**	42,598
Unicorn Capital Menkul Değerler A.Ş.	**2,018**	1,988
	2,018	44,586

Unicorn Capital Menkul Değerler A.Ş.

The recoverable amount of goodwill for Unicorn Capital Menkul Değerler A.Ş. has been calculated based on its fair value less cost to sell. Fair value for Unicorn Capital Menkul Değerler A.Ş. was determined from known prices that investors have paid for other similar companies active in the same sector.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount of the subsidiary to decline below the carrying amount.

(Amounts in United States Dollars thousands)

12. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Victron Inc. notes payable	-	22,874
Due to financial institutions	**300,766**	383,468
Due to non-financial institutions	**220,657**	16,105
	521,423	422,447

Included in due to financial institutions is a 3-year syndicated financing facility of US$125 million repayable in February 2011. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points. The facility is not secured against the assets of the Bank, but has certain financial covenants that cover the consolidated tangible net worth and the leverage ratio of the Bank.

13. SUBORDINATED MURABAHA

During 2009, the Bank obtained a US$50 million facility from a related party which is convertible at the discretion of the related party into ordinary shares of the Bank, in December 2015; at a mutually agreed price and subject to legal and regulatory requirements. The average effective profit rate on the subordinated murabaha is 6% (2008: nil).

14. OTHER LIABILITIES

	2009	2008
Accrued expenses	**1,204**	3,637
Deal-related payables	**10,672**	62,016
Staff-related payables	**4,256**	5,287
Trade and other payables	**8,856**	17,916
	24,988	88,856

15. SHARE CAPITAL

	2009	2008
Authorised:		
750,000,000 ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid:		
185,819,019 (2008: 158,304,361) ordinary shares of US$1 each, issued against cash	**185,819**	158,305
27,819,966 (2008: 23,801,343) ordinary shares of US$1 each, issued in kind	**27,820**	23,801
1,938,994 (2008: 1,633,994) ordinary shares of US$1 each, granted to employees	**1,939**	1,634
	215,578	183,740

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15. SHARE CAPITAL (continued)

	No. of shares (thousands)	Nominal Value
At 1 January 2008	174,704	174,704
Issued during the year	9,036	9,036
At 1 January 2009	**183,740**	183,740
Issued during the year	**31,838**	31,838
At 31 December 2009	**215,578**	215,578

16. SHARE PREMIUM

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

17. STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

18. PROPOSED DIVIDEND

No dividend has been proposed for 2009 (2008: nil) since the Board and management deem it prudent under the prevailing market conditions to preserve the cash generated by the Bank during 2009 as there is still considerable uncertainty as to how long the current global economic slowdown will last.

19. INVESTMENT BANKING FEES

	2009	2008
Advisory and placement fees	**66,547**	12,248
Arrangement and underwriting fees	**7,532**	1,358
Performance fees	**-**	5,013
Structuring fees	**67**	6,159
	74,146	24,778

(Amounts in United States Dollars thousands)

20. OTHER INVESTMENT BANKING INCOME

	2009	2008
Dividend income	**12,910**	1,154
Fair value (write-downs)/gain on investment properties	**(9,374)**	4,167
Fair value gain on investment securities	**4,733**	44,381
Gain on sale of investment securities	**5,440**	53,697
Management fees	**3,387**	3,186
Other income	**1,903**	5,019
	18,999	111,604

21. NET EXPENSE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2009	2008
Income on due from financial and non-financial institutions	**7,680**	6,178
Expense on due to financial and non-financial institutions	**(17,007)**	(9,014)
Net expense from financial and non-financial institutions	**(9,327)**	(2,836)

22. NET INCOME FROM NON-BANKING ACTIVITIES

	2009	2008
Sales from Victron Inc.	**88,065**	99,104
Less cost of sales from Victron Inc.	**(73,374)**	(80,907)
Gross profit from Victron Inc.	**14,691**	18,197
Other expenses from Victron Inc.	**(6,458)**	(8,663)
Net revenue from Victron Inc.	**8,233**	9,534
Revenue from Condor	**32,693**	-
Expenses from Condor	**(19,870)**	-
Net revenue from Condor	**12,823**	-
Net income from non-banking activities	**21,056**	9,534

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23. OPERATING EXPENSES

	2009	2008
Advertising	**763**	1,042
Bad debt	**5,000**	-
Business development	**4,888**	4,496
Depreciation and amortisation	**2,106**	925
General and administrative	**5,081**	6,919
Legal and professional	**7,234**	4,953
Premises	**3,840**	2,452
Staff costs	**47,927**	40,951
Other	**3,374**	1,754
	80,213	63,492

24. FAIR VALUE GAIN/FAIR VALUE WRITE-DOWNS AND WRITE-BACKS ON INVESTMENT SECURITIES

	2009	2008
Fair value gain on investment securities	**4,733**	44,381
Write-downs on investment securities	**(22,511)**	(31,822)
Write-backs of fair value write-downs made in prior year	**8,812**	-
Net fair value (loss)/gain on investment securities	**(8,966)**	12,559
Impairments	**(2,900)**	(6,950)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair value of quoted securities are derived from quoted market prices in active markets, if available. In case of unquoted, securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The fair values of other on the statement of financial position instruments are not significantly different from the carrying values included in the consolidated financial statements.

(Amounts in United States Dollars thousands)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2009:

	Level 1	Level 2	Level 3	Total 2009
Investment securities				
Investment securities carried at fair value through statement of income	**280**	**91,869**	**105,960**	**198,109**
Investment securities designated as available for sale				
Quoted	**27,734**	**-**	**-**	**27,734**
Unquoted	**-**	**13,226**	**8,930**	**22,156**
	28,014	**105,095**	**114,890**	**247,999**

Movements in level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value for the year ended 31 December 2009:

	At 1 January	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in equity	Purchases	Sales/ transfers	At 31 December
Investments carried at fair value through statement of income	**207,099**	**2,334**	**-**	**14,742**	**(118,215)**	**105,960**
Investment securities designated as available for sale - Unquoted	**10,205**	**(2,900)**	**11**	**1,614**	**-**	**8,930**
Total level 3 financial assets	**217,304**	**(566)**	**11**	**16,356**	**(118,215)**	**114,890**

Gains or losses on level 3 financial instruments included in profit or loss for the year ended 31 December 2009 comprise:

	Realised gains	Unrealised (losses)	Total
Total gains or (losses) included in profit or loss for the year	**-**	**(9,910)**	**(9,910)**

Transfers between level 1, level 2 and level 3

None of the financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2009.

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25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on fair value of level 3 financial instruments of using reasonably possible alternative assumptions by class of instrument:

	Carrying amount	Effects of reasonably possible alternative assumptions
Investment securities		
Investment securities carried at fair value through statement of income	**105,960**	**7,847**

For investment securities carried at fair value through statement of income, the Bank adjusted the discount rate ±1% and carrying values ±5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

Investment securities designated as available for sale - Unquoted	**8,930**	**447**

26. EQUITY TRANSACTION COSTS

Equity transaction costs represent costs incurred by the Bank that are directly related to the raising of capital. These amounts are included in the consolidated statement of changes in equity.

	2009			2008		
	In cash	**In kind**	**Total**	In cash	In kind	Total
Sponsors	**1,658**	**16,074**	**17,732**	-	-	-
Others	**7,290**	**-**	**7,290**	-	-	-
	8,948	**16,074**	**25,022**	-	-	-

Equity transaction costs incurred in kind represent shares given to certain sponsors and founder members of the Bank, in relation to capital raised during the year.

During the year US$25.0 million (2008: nil) of equity transaction costs has been transferred to share premium.

27. ASSETS UNDER MANAGEMENT

	2009	2008
Proprietary	**101,175**	88,427
Clients	**287,406**	275,959
	388,581	364,386

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

(Amounts in United States Dollars thousands)

28. COMMITMENTS

	2009	2008
Investment-related	**24,493**	35,980
Lease commitments	**5,195**	6,515
	29,688	42,495
Guarantees	**3,863**	4,167
	33,551	46,662

29. RELATED PARTY TRANSACTIONS

Compensation of senior management personnel

Senior management personnel are those that possess significant decision making and direction setting responsibilities within the Group.

	2009	2008
Short term employee benefits	**13,706**	10,430
Post employment benefits	**536**	1,327
Share-based payments	**1,220**	721
	15,462	12,478

Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and senior management personnel of the Group, members of the Shari'ah Supervisory Board of the Group, close members of their families and entities owned or controlled by them. Pricing policies and terms of the transactions relating to these related parties are approved by management.

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds. All transactions with these related parties arose from the ordinary course of business at normal commercial rates.

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29. RELATED PARTY TRANSACTIONS (continued)

Transactions, arrangements and agreements involving related parties (continued)

	2009			2008		
	Shareholders/ Directors	**Senior management**	**Other entities**	Shareholders/ Directors	Senior management	Other entities
Assets						
Due to financial and non-financial institutions	**-**	**-**	**85,304**	-	-	-
Investment securities	**-**	**-**	**143,399***	-	-	252,132
Investments in associates and joint venture	**-**	**-**	**151,348**	-	-	24,427
Other assets	**-**	**110**	**81,053**	-	95	16,155
Liabilities						
Due to financial and non-financial institutions	**-**	**-**	**47,422**	-	-	115,187
Subordinated murabaha	**-**	**-**	**50,000**	-	-	-
Other liabilities	**1,040**	**1,032**	**8,242**	2,877	-	66,535
Shareholders' equity						
Equity transaction costs	**10,953**	**6,780**	**-**	-	-	-
Statement of income						
Investment banking fees	**-**	**-**	**69,647**	-	-	24,098
Other investment banking income	**-**	**-**	**12,447**	-	-	52,321
Net income from financial and non-financial institutions	**-**	**-**	**188**	-	-	595
Bad debt	**-**	**-**	**(5,000)**	-	-	-
Share of loss of associates	**-**	**-**	**(3,662)**	-	-	(2,010)
Victron Inc. expenses	**-**	**-**	**(359)**	-	-	(329)
Fair value loss on investment-related receivables	**-**	**-**	**(10,000)**	-	-	-
Directors' remuneration and expenses	**(656)**	**-**	**-**	(666)	-	-
Shari'ah Supervisory Board remuneration and expenses	**-**	**-**	**(409)**	-	-	(398)

* The investment securities amount includes investment-related receivable amounting to US$10 million.

Outstanding balances at the year end arise in the normal course of business.

30. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to investment and credit risk, market risk, liquidity risk and operational risks, as well as concentration risk, reputation risk and other external business risks. The Group's ability to properly identify, measure, monitor, report and actively manage risk is a core element of the Group's operating philosophy and profitability.

- Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. In 2009, Risk Management infrastructure and governance model was significantly enhanced by the setup of specific departments for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk as well as the monitoring and controlling of exposures on a global basis. Furthermore, local risk teams have been strengthened. This process continues through expansion of the Group's Risk Management infrastructure.

30. RISK MANAGEMENT (continued)

- Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks.

- Risk monitoring: The Group's risk management policies and procedures incorporate risk appetite statements, converted to a range of limits appropriate to the Group's business model. Key areas of the Group's activities are subject to monitoring limits which are regularly reviewed.

- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The information is reported to the Asset and Liability Committee (ALCO) and the Risk Committee (RC) of the Group on a regular basis.

Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

Risk Committee

The Risk Committee has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, within the framework of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework' (Basel II) recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Asset and Liability Committee (ALCO)

The Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

Risk Management is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. Risk Management reports directly to the Board of Directors (via the Chief Risk Officer) and conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. It is responsible for the implementation of the Group's Business Change Implementation Guidelines, which defines the principles by which new strategies, products, systems and processes are developed in a systematic and co-ordinated fashion and for implementing control and compliance processes for use by the wider businesses involved in control and operational activities (principally Finance, Compliance, Information Technology and Operations).

Risk Management is also responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

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30. RISK MANAGEMENT (continued)

Treasury
Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Capital Markets and Institutional Banking
Capital Markets and Institutional Banking is responsible for the development of the Group's medium and long term funding capability and the establishment of all key inter-bank and financial institution relationships. Institutional Banking undertakes diversification strategies to widen the Group's funding base and reduce geographical exposure and concentration risks.

Audit Committee
The Audit Committee is appointed by the Board of Directors and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

Internal Audit
All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the strategies of the Group, the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Investment Risk
Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective investment departments. This is supported by Risk Management which undertakes an additional and independent risk assessment of every planned transaction. The Group's investments in private equity are by definition in illiquid markets, frequently in emerging markets. Such investments cannot generally be hedged or liquidated easily. Consequently, the Group seeks to mitigate its risks via more direct means. Post acquisition risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the private equity transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee for review.

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

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

31. CREDIT RISK

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activity in close cooperation with Risk Management and proposes limits for review and approval by RC. RC periodically reviews these limits for appropriateness in prevailing market conditions.

(Amounts in United States Dollars thousands)

31. CREDIT RISK (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. There is no significant use of master netting and collateral agreements.

	Gross maximum exposure 2009	Gross maximum exposure 2008
Balances with banks	**135,891**	23,531
Due from financial and non-financial institutions	**301,043**	396,614
Investment securities	**25,661**	29,382
Other assets – (fees and recoverable expenses outstanding from clients, accounts receivable from Victron, dividend receivable and receivable from sales of investments)	**99,912**	30,745
Total	**562,507**	480,272
Guarantees	**3,863**	4,167
Total credit risk exposure	**566,370**	484,439

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2009 was US$84.9 million (2008: US$44.1 million).

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

	Banks & financial institutions 2009	Others 2009	Total 2009
Bahrain	**160,746**	**17,929**	**178,675**
Other Middle East	**89,684**	**111,501**	**201,185**
North America	**113,774**	**3,043**	**116,817**
Asia Pacific	**60,361**	**4,491**	**64,852**
Europe	**4,698**	**143**	**4,841**
Total	**429,263**	**137,107**	**566,370**

	Banks & financial institutions 2008	Others 2008	Total 2008
Bahrain	211,309	3,304	214,613
Other Middle East	139,195	42,218	181,413
North America	8,263	17,120	25,383
Asia Pacific	4,244	-	4,244
Europe	57,132	1,654	58,786
Total	420,143	64,296	484,439

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31. CREDIT RISK (continued)

Risk concentration of the maximum exposure to credit risk (continued)

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	Assets	Off-statement of financial position	Total 2009	Total 2008
Industry Sector				
Banking and finance	**427,340**	**863**	**428,203**	435,524
Industrial	**5,445**	**-**	**5,445**	141
Real estate and construction	**91,468**	**-**	**91,468**	30,529
Technology	**-**	**3,000**	**3,000**	17,120
In-house funds	**1,060**	**-**	**1,060**	1,125
Trade	**6,015**	**-**	**6,015**	-
Government	**2,000**	**-**	**2,000**	-
Individual	**29,179**	**-**	**29,179**	-
Total	**562,507**	**3,863**	**566,370**	484,439

Collateral and other credit enhancements

The Group has no material usage of collateral or other credit enhancements since these are not acceptable within the Group's Islamic banking business model.

Credit quality per class of financial assets

The Group does not currently apply a standard credit rating to its investment business. The Group assessed investment quality according to the policies of the respective business areas in 2009. However, this will change with the rollout of new/updated scoring models in 2010. Management considers the credit quality of the Group's financial assets to be of materially standard quality as at 31 December 2009. Following is an analysis of credit quality by class of financial assets:

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	31 December 2009 Total
Balances with banks	**135,891**	**-**	**-**	**135,891**
Due from financial and non-financial institutions	**301,043**	**-**	**-**	**301,043**
Investment securities	**18,400**	**-**	**7,261**	**25,661**
Other assets – receivable from clients	**80,707**	**19,205**	**-**	**99,912**
	536,041	**19,205**	**7,261**	**562,507**

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	31 December 2008 Total
Balances with banks	23,531	-	-	23,531
Due from financial and non-financial institutions	396,614	-	-	396,614
Investment securities	19,232	-	10,150	29,382
Other assets – receivable from clients	19,703	11,042	-	30,745
	459,080	11,042	10,150	480,272

(Amounts in United States Dollars thousands)

31. CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

Aging analysis of past due but not impaired by class of financial assets.

	Less than 120 days 2009	Less than 365 days 2009	More than 365 days 2009	Total 2009
Other assets – receivable from clients	**2,036**	**12,237**	**4,932**	**19,205**

	Less than 120 days 2008	Less than 365 days 2008	More than 365 days 2008	Total 2008
Other assets – receivable from clients	3,709	1,601	5,732	11,042

32. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity management

Liquidity is defined as the Group's ability to make payments, when they fall due. When the Group cannot raise funds to meet its obligations at market rates, it faces a liquidity crisis. This may reflect: poor performance; severe tightening of market liquidity; general deterioration in the perceived credit-worthiness of the Group in the view of the financial markets; a failure to manage the cash flows of the Group's assets and liabilities to meet short term funding requirements; or a serious lack of profitability.

In the event of a liquidity crisis, the Group's liquidity framework defines a methodology and operational plan for ensuring adequate funds continue to be available. In summary, the liquidity contingency plan establishes roles and responsibilities for crisis identification and co-ordination; assessment of the severity and implications of the crisis; determination of the cash flow requirements; determination of investment liquidation requirements under fire sale conditions and necessary emergency finance; and management of corporate communications with external parties, regulators and the media.

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2009 and 31 December 2008 based on contractual undiscounted repayment obligations.

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2009					
Due to financial and non-financial Institutions	**-**	**214,493**	**181,930**	**125,000**	**521,423**
Subordinated murabaha	**-**	**-**	**-**	**50,000**	**50,000**
Other liabilities	**-**	**10,581**	**4,000**	**7,407**	**21,988**
Total financial liabilities	**-**	**225,074**	**185,930**	**182,407**	**593,411**
Total undiscounted financial liabilities	**-**	**226,245**	**194,240**	**202,713**	**623,198**

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2008					
Due to financial and non-financial institutions	9,945	264,628	-	147,874	422,447
Other liabilities	-	64,250	20,659	3,947	88,856
Total financial liabilities	9,945	328,878	20,659	151,821	511,303
Total undiscounted financial liabilities	9,945	330,835	25,246	162,661	528,687

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32. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of liabilities (continued)

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
2009					
Commitments	**13,551**	**-**	**12,027**	**4,110**	**29,688**
Guarantees	**3,863**	**-**	**-**	**-**	**3,863**
Total	**17,414**	**-**	**12,027**	**4,110**	**33,551**
2008					
Commitments	12,970	23,372	1,086	5,067	42,495
Guarantees	4,167	-	-	-	4,167
Total	17,137	23,372	1,086	5,067	46,662

33. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis. The Group has significant market risk exposures from its foreign currency investments.

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: due from financial and non-financial institutions, investments in Sukuk, due to financial and non-financial institutions and subordinated murabaha.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2009	Change in basis points (+/-) 2009	Effect on net profit (+/-) 2009	2008	Change in basis points (+/-) 2008	Effect on net profit (+/-) 2008
Assets						
Due from financial and non-financial institutions	**301,043**	**200**	**4,319**	396,614	200	7,932
Investment in Sukuk	**15,661**	**200**	**313**	10,150	200	203
Liabilities						
Due to financial and non-financial institutions	**521,423**	**200**	**(8,484)**	422,447	200	(8,449)
Total			**(3,852)**			(314)

(Amounts in United States Dollars thousands)

33. MARKET RISK (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and the consolidated statement of other comprehensive income. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	Exposure (US$ equivalent) 2009	Effect on net profit (+/-) 2009	Effect on equity (+/-) 2009	Exposure (US$ equivalent) 2008	Effect on net profit (+/-) 2008	Effect on equity (+/-) 2008
Kuwaiti Dinar	**462**	**92**	**-**	-	-	-
Turkish Lira	**10,290**	**-**	**2,058**	10,674	-	2,135
Malaysian Ringgit	**2,974**	**-**	**595**	(3,602)	-	720
Euro	**2,350**	**470**	**-**	2,226	445	-

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Group.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2009) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$29.717 million and US$5.134 million, respectively (2008: US$39.626 million and US$4.201 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected.

The Group is not exposed to any significant prepayment risk.

34. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

Capital charge for operational risk	2009	2008
Gross Income	**199,136**	178,953
Average for preceding three years	**162,596**	110,525
Alpha	**15%**	15%
Capital charge for operational risk	**24,389**	16,579

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35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2009	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and balances with banks	**135,918**	**-**	**135,918**
Due from financial and non-financial institutions	**297,937**	**3,106**	**301,043**
Investment securities	**82,494**	**165,505**	**247,999**
Investments in associates and joint venture	**-**	**151,348**	**151,348**
Investment properties	**-**	**29,164**	**29,164**
Inventories	**-**	**-**	**-**
Other assets	**115,699**	**1,011**	**116,710**
Premises and equipment	**-**	**8,797**	**8,797**
Assets held for sale	**40,622**	**-**	**40,622**
Goodwill and intangible assets	**-**	**2,018**	**2,018**
Total assets	**672,670**	**360,949**	**1,033,619**
LIABILITIES			
Due to financial and non-financial institutions	**396,423**	**125,000**	**521,423**
Subordinated murabaha	**-**	**50,000**	**50,000**
Other liabilities	**17,581**	**7,407**	**24,988**
Liabilities relating to assets held for sale	**13,556**	**-**	**13,556**
Total financial liabilities	**427,560**	**182,407**	**609,967**
Net gap	**245,110**	**178,542**	**423,652**
Net cumulative gap	**245,110**	**423,652**	

31 December 2008	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and balances with banks	23,560	-	23,560
Due from financial and non-financial institutions	396,614	-	396,614
Investment securities	76,137	252,423	328,560
Investments in associates	-	24,427	24,427
Investment properties	-	38,538	38,538
Inventories	10,695	-	10,695
Other assets	56,949	1,009	57,958
Premises and equipment	-	6,778	6,778
Assets held for sale	39,187	-	39,187
Goodwill and intangible assets	-	52,453	52,453
Total assets	603,142	375,628	978,770
LIABILITIES			
Due to financial and non-financial institutions	273,736	148,711	422,447
Other liabilities	85,409	3,447	88,856
Liabilities relating to assets held for sale	13,556	-	13,556
Total liabilities	372,701	152,158	524,859
Net liquidity gap	230,441	223,470	453,911
Net cumulative gap	230,441	453,911	

36. SEGMENT INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on their nature of operations and services and has six reportable operating segments which are as follows:

Capital Markets and Treasury	The Group's capital markets business is engaged in structuring, managing and placing financing and equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah-compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book. The Group's treasury business provides Shari'ah-compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.
Private Equity	The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.
Corporate Finance	The Group's corporate finance business provides clients with corporate finance advisory services for capital planning and funding strategy, financial restructuring and mergers and acquisitions. The services include balance sheet structuring, valuation, financing alternatives and strategic business advisory services.
Asset Management	The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.
Strategic Mergers and Acquisitions ("SM&A")	The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.
Other	'Other' comprises the central management and support functions of the Group.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

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36. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2009							
	Capital Markets & Treasury	Private Equity	Corporate Finance	Asset Management	Strategic M&A	Other	Elimination	Total
Third party income	68,035	9,515	434	6,084	16,374	(7,297)	-	93,145
Profit from assets held for sale	-	1,246	-	-	-	-	-	1,246
Net income from non-banking activities	-	8,233	-	-	12,823	-	-	21,056
Inter-segment income	-	1,757	-	472	-	444	(2,673)	-
Net income/(expense) from financial and non-financial institutions	3,276	(6,851)	(700)	(554)	(4,623)	125	-	(9,327)
Share of loss of associates	-	-	-	-	(3,662)	-	-	(3,662)
Total income	71,311	13,900	(266)	6,002	20,912	(6,728)	(2,673)	102,458
Depreciation and amortisation	-	-	-	-	-	(1,646)	-	(1,646)
Income tax expense	-	(3,099)	-	5	(323)	6	-	(3,411)
Other operating expenses	(1,851)	(6,174)	(1,468)	(5,961)	(5,164)	(57,949)	-	(78,567)
Total expenses	(1,851)	(9,273)	(1,468)	(5,956)	(5,487)	(59,589)	-	(83,624)
Impairments	(2,900)	-	-	-	-	-	-	(2,900)
Write-downs on investment securities	(10,163)	(5,823)	(4,500)	-	(17)	(2,008)	-	(22,511)
Write-backs of fair value write-downs made in prior year	-	8,812	-	-	-	-	-	8,812
Net Profit	56,397	7,616	(6,234)	46	15,408	(68,325)	(2,673)	2,235
Investments in associates and joint venture	-	29,285	-	-	122,063	-	-	151,348
Capital expenditure	-	5	-	14	-	8,552	-	8,571
Segment Assets	478,572	219,333	19,154	39,679	147,825	129,056	-	1,033,619
Segment Liabilities	171,248	202,042	19,259	15,242	127,189	74,987	-	609,967

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36. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2008							
	Capital Markets & Treasury	Private Equity	Corporate Finance	Asset Management	Strategic M&A	Other	Elimination	Total
Third party income	10,150	19,907	23,515	12,253	68,814	1,743	-	136,382
Net income from non-banking activities	-	9,534	-	-	-	-	-	9,534
Inter-segment income	-	3,211	-	-	-	-	(3,211)	-
Net income/(expense) from financial and non-financial institutions	4,228	(3,013)	(420)	(693)	(2,441)	(497)	-	(2,836)
Share of loss of associates	-	-	-	-	(2,010)	-	-	(2,010)
Total income	14,378	29,639	23,095	11,560	64,363	1,246	(3,211)	141,070
Depreciation and amortisation	-	(43)	-	(24)	-	(858)	-	(925)
Income tax expense	-	(3,788)	-	(1)	-	(6)	-	(3,795)
Other operating expenses	(1,666)	(4,531)	(1,261)	(3,336)	(3,994)	(47,779)	-	(62,567)
Total expenses	(1,666)	(8,362)	(1,261)	(3,361)	(3,994)	(48,643)	-	(67,287)
Impairments	(4,350)	-	-	-	(2,600)	-	-	(6,950)
Write-downs on investment securities	-	(26,117)	-	-	(5,705)	-	-	(31,822)
Net Profit	8,362	(4,840)	21,834	8,199	52,064	(47,397)	(3,211)	35,011
Investments in associates	-	-	-	-	24,427	-	-	24,427
Capital expenditure	-	134	-	12	-	3,505	-	3,651
Segment Assets	469,634	223,647	24,178	44,719	166,471	50,121	-	978,770
Segment Liabilities	155,600	152,118	14,506	23,934	84,306	94,395	-	524,859

(Amounts in United States Dollars thousands)

36. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets expenditure by geographical segments, based on the location in which the transactions and assets are recorded, for the years ended 31 December 2009 and 2008.

31 December 2009	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total (loss)/income	**(24,617)**	**110,945**	**8,662**	**1,400**	**6,068**	**102,458**
Non-current assets	**36,310**	**809**	**38**	**716**	**2,106**	**39,979**

31 December 2008	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	17,072	100,761	12,147	1,957	9,133	141,070
Non-current assets	42,863	267	52,174	711	1,754	97,769

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments as of the consolidated statement of financial position date, other than those stated at amortised cost, approximates to their carrying values.

38. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

39. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

40. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Group is calculated on the basis of a method prescribed by the Group's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2009 was US$0.05 per share (2008: US$0.05 per share).

41. CAPITAL

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

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41. CAPITAL (continued)

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, is as follows:

	2009 (Basel II)	2008 (Basel II)
Regulatory capital base:		
Tier 1 capital	**295,363**	197,150
Tier 2 capital	**-**	-
Total regulatory capital	**295,363**	197,150
Risk-weighted assets	**1,281,160**	1,022,093
Tier 1 capital adequacy ratio	**23.05%**	19.29%
Total capital adequacy ratio	**23.05%**	19.29%

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; non-controlling interests less accrued dividends and goodwill. Certain adjustments are made to IFRS based results and reserves, as prescribed by the Central Bank of Bahrain. Tier 2 capital comprises 45% of fair value reserves.

42. COMPARATIVE FIGURES

Some of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not have any affect on the last year reported figures.