Unicorn Investment Bank B.S.C. (c)

Public Disclosure Document

30 June 2011

These disclosures should be read in conjunction with the detailed risk and capital management disclosures made by the Bank in the Annual Report for the year ended 31 December 2010 and interim financial information for the six months period ended 30 June 2011

1. Consolidated Financial Performance Summary

Unicorn Investment Bank B.S.C (c)

Consolidated Performance Summary

(Amounts in United State Dollars thousands)	**H1 2011**	**2010**	**2009**	**2008**	**2007**
(Loss)/profit before reversals/ impairments & provisions	(9,083)	(56,963)	21,266	33,197	50,435
Net profit / (loss)	3,081	(229,496)	2,235	35,011	49,591
Total assets	515,205	727,359	1,033,619	978,770	488,419
Due from financial institutions & non-financial institutions	156,611	301,850	301,043	396,614	113,313
Investment securities	114,960	122,413	247,999	328,560	211,393
Total liabilities	267,848	525,542	609,967	524,859	140,096
Due to financial institutions & non-financial institutions	212,492	393,980	521,423	422,447	98,908
Shareholders' equity	204,676	151,939	379,709	329,640	314,433
Total equity	247,357	201,817	423,652	453,911	348,323
Return on average assets *(per cent) annualised*	1.0%	-26.1%	0.2%	4.8%	12.7%
Return on average shareholders' equity *(per cent) annualised*	3.5%	-86.3%	0.6%	10.9%	17.4%
Cost to income ratio *(per cent)*	163.1%	561.8%	78%	65.7%	57.9%
Financial leverage *(per cent)*	103.8%	293.0%	150.5%	90.9%	22.4%
Capital adequacy ratio *(per cent)*	14.4%	13.6%	23.1%	30.8%	44.7%

2. Capital Management and Allocation

Unicorn Investment Bank B.S.C. (c) (Unicorn) is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as Wholesale Bank (Islamic Principles) by the Central Bank of Bahrain (CBB). It has subsidiaries in the Kingdom of Saudi Arabia, Malaysia and Turkey and associated undertakings in the United Arab Emirates, Pakistan and Bahrain. The Bank recently took the decision to exit the US market, resulting in the closure of its Chicago office. In the period under review, the Bank established a Capital Management Policy detailing roles and responsibilities for capital management, internal capital adequacy monitoring thresholds and prompt corrective actions to be taken to comply with internal capital adequacy ratio targets. This policy will form part of the Bank's Internal Capital Adequacy Plan ("ICAAP") which is in the final stages of implementation.

Unicorn is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB, based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). In accordance with CBB guidelines, Unicorn must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis.

2.1 Capital Structure

The following table details the regulatory capital resources for Unicorn as at 30 June 2011, 31 December 2010 and 31 December 2009, detailing between Tier 1 and Tier 2 capital.

Composition of capital

(US$ millions)	**30 June 2011**	31 December 2010	31 December 2009
Tier 1 capital			
Paid-up share capital	**207.9**	215.6	215.6
Share premium	**-**	141.7	141.7
Reserves	**(7.5)**	(97.5)	15.6
Non-Controlling Interest	**-**	34.6	37.3
Less: goodwill	**(37.6)**	(38.1)	(2.0)
Less: unrealised net fair value losses on investment securities	**(1.2)**	(118.3)	(12.4)
Less: 50% of investment in Burj Bank Limited	**(10.6)**	(7.0)	(10.9)
Less: 50% of investment in t'azur	**(4.8)**	(5.0)	(5.4)
Less: 50% of investment in BFC Group Holdings Limited	**-**	-	(44.7)
Less: excess amounts over maximum permitted large exposure limits	**(14.8)**	(20.7)	(14.3)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(26.1)**	-	(25.2)
Total qualifying Tier 1 capital	**105.3**	105.3	295.3

2.1 Capital Structure (continued)

Tier 2 capital			
Subordinated Murabaha	**-**	50.0	50.0
Current interim profits (reviewed by external auditors)	**4.1**	-	-
Fair value gains	**-**	0.1	0.3
Less: regulatory discount (55%) on fair value gains	**-**	-	(0.2)
Less: 50% of investment in Burj Bank Limited	**(10.6)**	(7.0)	(10.9)
Less: 50% of investment in t'azur	**(4.8)**	(5.0)	(5.4)
Less: 50% of investment in BFC Group Holdings Limited	**-**	-	(44.7)
Less: excess amounts over maximum permitted large exposure limits	**(14.8)**	(20.7)	(14.3)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**26.1**	-	25.2
Total qualifying Tier 2 capital	**-**	17.4	-
Total eligible regulatory capital	**105.3**	122.7	295.3

During the period, and after obtaining the necessary regulatory and shareholder approvals, the Bank made the following changes to its capital structure:

- Adjustment of accumulated losses of US$ 215 million to the extent of available balance in share premium and statutory reserve and the balance of US$ 57.72 million against the paid up share capital of the Bank; and
- Converted the US$ 50 million subordinated Murabaha into equity shares of US$ 1 each.

2.2 Capital Management

Unicorn's capital adequacy policy is to maintain a strong capital base to support the Bank's balance sheet. Current and future capital requirements are determined on the basis of business growth expectations for each business group; future sources and uses of funds, including seed capital requirements and expected sell-down and placement targets; and the Bank's future dividend policy.

The following tables detail the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for the Unicorn Group as at 31 June 2011, 31 December 2010 and 31 December 2009. The figures are based on the Basel II standardized approach for credit risk, market risk and the Basel II basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's as External Credit Assessment Institutions (ECAI's) for the risk weighting of assets by type of claims. If there are two assessments available by eligible ECAIs chosen by the bank which map into different risk weights, the higher risk weight will be applied. If there are three assessments available by eligible ECAIs chosen by the bank which map into different risk weights, the assessments corresponding to the two lowest risk weights will be referred to and the higher of those two risk weights will be selected.

The Bank uses the Standardized Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk.

The Bank does not deal with, finance or hold securities on behalf of Highly Leveraged Institutions (HLI) as defined by the Basel Committee on Bank Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and

2.2 Capital Management (continued)

analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review – tools which are all designed to exclude HLIs. Unicorn's treasury counterparts are fully licensed and regulated financial institutions and a majority of which are also rated by credit rating agencies. In addition to the above the

Bank has developed an internal rating methodology where all counterparty are rated and assigned an internal rating mapped to grades provided by external rating agencies. The internal credit rating methodology has strengthened the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial condition and performance. Before establishing limits all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee

As part of its collateral management, policy the Bank only accepts collateral in line with Shari'ah requirements and with a view to minimizing wrong-way risk exposure. The Bank also manages its collateral with a view to minimizing collateral concentration risk either by specific issuer, market or instrument. Currently the Bank does not hold collateral, which is dependent on or sensitive to the credit rating of the counterparty.

The Bank's credit policy defines the approach to be used when determining provisions and this depends on the number of days outstanding and credit risk rating. All exposures graded as non-performing have provisions provided for. Provisions are calculated after incorporating the value of realizable collateral net of any disposal costs.

2.3 Credit risk-weighted assets

Under the CBB standardized approach, credit risk exposures are assigned to one of fourteen standard portfolios as shown below, risk weighted accordingly.

	Risk-weighted equivalents			Basel II risk-weightings
(US$ millions)	**30 June 2011**	31 December 2010	31 December 2009	
Claims on sovereigns	**-**	-	-	n/a
Claims on international organisations	**-**	-	-	n/a
Claims on non-central government public sector entities	**-**	-	-	n/a
Claims on multilateral development banks	**-**	-	-	n/a
Claims on banks	**42.4**	41.1	98.9	20%-100%
Claims on investment firms	**-**	-	-	50%
Claims on corporates	**107.2**	193.7	206.1	100%
Regulatory retail portfolios	**-**	-	-	n/a
Residential property	**-**	-	-	n/a
Commercial real estate	**54.7**	134.8	204.5	200%
Past due exposures	**-**	-	-	n/a
Investments in equities and funds:				
Investments in listed equities	**24.8**	0.1	11.8	100%
Investments in unlisted equities	**83.4**	125.5	239.5	150%
Investments in unrated funds	**45.8**	53.7	66.1	150%
Real estate holdings	**-**	-	-	100%
Other assets	**41.1**	39.8	26.9	100%
Underwriting assets	**-**	-	-	n/a
Credit risk-weighted assets	**399.4**	588.7	853.8	

2.4 Minimum capital requirements for Islamic financing contracts

(US$ millions)	**30 June 2011**		31 December 2010	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**95.8**	**12.0**	149.1	18.6
Wakala	**12.7**	**1.6**	94.1	11.8
Mudaraba	**15.9**	**2.0**	16.9	2.1

2.5 Market risk-weighted assets

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, equity prices and commodities. Under the CBB standardized approach, market risk exposures are calculated for the five categories shown in the table below. Apart from limited foreign exchange which is mainly transaction-driven and long term foreign currency exposure on private equity investments, the Bank has limited exposure to short term market risks.

The details of Unicorn market risk capital charge and the equivalent market risk-weighted assets, as at 30 June 2011, 31 December 2010 and 31 December 2009, are:

(US$ millions)	**30 June 2011**	31 December 2010	31 December 2009
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**6.7**	5.4	9.8
Commodities risk	**-**	-	-
Total capital requirement for market risk	**6.7**	5.4	9.8
CBB multiplier	**12.5**	12.5	12.5
Market risk-weighted assets	**83.8**	67.5	122.5

The details of Unicorn maximum and minimum value for each category of the market risk during the six month period ended 30 June 2011 are:

(US$ millions)	**Maximum Capital Charge**	**Minimum Capital Charge**
Price risk	-	-
Equities position risk	-	-
Sukuk risk	-	-
Foreign exchange risk	**6.7**	**4.9**
Commodities risk	-	-
Total capital requirement for market risk	**6.7**	**4.9**

CBB multiplier	**12.5**	**12.5**
Market risk-weighted assets	**83.8**	**61.3**

2.6 Operational risk-weighted exposure

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. Under the Basel II basic indicator approach for operational risk, gross income (weighted by an arbitrary 15%) is a broad indicator that serves as a proxy for the scale of the Bank's operations and hence the likely scale of operational risk exposure within the business.

The details of Unicorn's operational risk capital charge, and the equivalent operational risk-weighted exposure, as at 31 December 2010 and 31 December 2009 are shown below:

(US$ millions)	**31 December 2010**	31 December 2009
Total gross operating income	**17.8**	199.1
3 year average gross income	**132.0**	162.6
Basic indicator factor	**15%**	15%
Capital charge for operational risk	**19.8**	24.4
CBB multiplier	**12.5**	12.5
Total Operational risk-weighted exposure	**247.5**	304.9

2.7 Risk-weighted assets

Risk-weighted assets decreased by US$173.0 million (19%) in 30 June 2011, from US$903.7 million as at 31 December 2010 to US$730.7 million as detailed below:

(US$ millions)	**30 June 2011**	31 December 2010	31 December 2009
Credit risk-weighted assets	**399.4**	588.7	853.8
Market risk-weighted assets	**83.8**	67.5	122.5
Operational risk-weighted exposure	**247.5**	247.5	304.9
Total risk-weighted assets	**730.7**	903.7	1,281.2

Group Structure

The Group's financial statements are prepared on a full consolidation basis, with all subsidiaries being consolidated in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

Group Structure (continued)

The principal subsidiaries and associates and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
UIB Capital Inc.	United States of America	100%	Full Consolidation
Unicorn International Islamic Bank Malaysia Berhad	Malaysia	100%	Full Consolidation
Unicorn Capital Menkul Degerler A.S.	Turkey	91.9%	Full Consolidation
Unicorn Capital Saudi Arabia	Kingdom of Saudi Arabia	53.4%	Pro-rata Consolidation
Victron Inc	United States of America	80%	Risk weighting
Associates			
BFC Group Holdings Ltd. ("BFC")	United Arab Emirates	44.88%	Pro-rata Consolidation
Burj Bank Limited	Pakistan	36.90%	Full Deduction
t'azur B.S.C. (c)	Kingdom of Bahrain	25.86%	Full Deduction

There are no investments in subsidiaries that are treated as a deduction from the Group's regulatory capital. There are no restrictions on the transfer of funds or regulatory capital within the Group.

2.8 Capital adequacy ratio

Capital Ratios - Consolidated & Subsidiaries Above 5% of Group regulatory Capital

(Per cent)	**30 June 2011**		31 December 2010	
	Total Capital Ratio	**Tier 1 Capital Ratio**	Total Capital Ratio	Tier 1 Capital Ratio
Unicorn Group	**14.4**	**14.4**	13.6	11.7
Unicorn International Islamic Bank Malaysia Berhad	**27.6**	**27.6**	28.9	28.9
Unicorn Capital Saudi Arabia	**96.1**	**96.1**	157.8	157.8
Unicorn Capital Menkul Degerler A.S.	**45.3**	**45.3**	57.5	57.5

(Per cent)	**30 June 2011**	31 December 2010	31 December 2009
Tier 1 capital adequacy ratio	**14.4**	11.7	23.1
Total capital adequacy ratio	**14.4**	13.6	23.1

The Bank's gain of US$ 2.9 million from the sale of Sun Well Services Inc and current interim profit for six month period ended 30 June 2011 resulted in an increase in the Bank's capital adequacy position. The Basel II Tier I capital adequacy ratio increased from 11.7% at 31 December 2010 to 14.4% at 30 June

2011. The Basel II total capital adequacy ratio similarly increased, from 13.6% to 14.4% over the same period.

The minimum capital required by Unicorn to maintain compliance at 12.5% is shown in the table below.

2.9 Minimum capital requirements

(US$ millions)	**30 June 2011**	31 December 2010	31 December 2009
Credit risk	**49.9**	73.6	106.7
Market risk	**10.5**	8.4	15.3
Operational risk	**30.9**	30.9	38.1
Total capital requirements	**91.3**	112.9	160.1

3. Risk Management

3.1 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 activities and other client groups in close cooperation with Risk Management and proposes limits for review and approval by Risk Committee **("RC")**. Further, Risk Management is independently analyzing the applications and is rating the respective corporate, banking and real estate sector based counterparties. Based on this an independent recommendation is forwarded to the RC for approval (this Risk process is in place for all client groups). RC periodically reviews these limits for appropriateness in prevailing market conditions.

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

(US$ thousands)	**Gross maximum exposure 30 June 2011**	Gross maximum exposure 31 December 2010 (restated)
Balances with banks	**7,412**	43,928
Placements with financial institutions	**64,292**	67,437
Financing receivables	**92,319**	234,413
Investment securities	**14,380**	14,074
Other assets	**5,538**	3,224
Total	**183,941**	363,076
Guarantees	**3,338**	3,357
Total credit risk exposure	**187,279**	366,433

Other assets as of 30 June 2011 include US$ 3 million receivable from sale of Sun Well Services Inc maintained in an escrow account for 18 months under a recourse agreement.

3.1.1 Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2011, classified as per the disclosure in the financial statements:

Balance sheet items	**Funded exposure**	**Unfunded exposure**	**Total gross credit exposure**	**Average gross credit exposure***
(US$ millions)				
Balances with banks	7.4	-	7.4	19.6
Placements with financial institutions	64.3	-	64.3	66.4
Financing receivables	92.3	-	92.3	154.3
Investment securities	14.4	-	14.4	15.2
Other assets	5.5	-	5.5	3.9
	183.9	**-**	**183.9**	**259.4**
Guarantees	-	3.3	3.3	3.3
Total credit risk exposure	**183.9**	**3.3**	**187.2**	**262.7**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during period ended 30 June 2011.

3.1.2 Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed through the establishment of exposure limits to counterparties, geographical regions and by industry sectors. The Bank's Large Exposure Policy details concentration limits per obligor, groups of connected obligors, sector, geography, countries and groups of countries. The maximum credit exposure to any client or counterparty as of 30 June 2011 was US$47.7 million (31 December 2010: US$60.9 million).

Exposures in excess of the 15% limit for the six months ended 30 June 2011 is as follows:

Counter parties	Amount of exposures In US$ thousands	% of exposure To capital
Counterparty # 1	**47,700**	**35.36%**
Counterparty # 2	**31,551**	**23.39%**
Counterparty # 3	**31,205**	**23.13%**
Counterparty # 4	**22,357**	**16.57%**
Counterparty # 5	**22,256**	**16.50%**
Counterparty # 6	**20,380**	**15.11%**

The exposure to Counterparty # 3 is an exempted short term interbank exposure.

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

	30 June 2011		
(US$ thousands)	**Banks & financial institutions**	**Others**	**Total**
Bahrain	**13,137**	**9,640**	**22,777**
Other Middle East	**14,388**	**72,582**	**86,970**
North America	**2,949**	**6,238**	**9,187**
Asia Pacific	**49,789**	**9,628**	**59,417**
Europe	**8,902**	**26**	**8,928**
Total	**89,165**	**98,114**	**187,279**

	31 December 2010 (restated)		
(US$ thousands)	Banks & financial institutions	Others	Total
Bahrain	29,981	15,046	45,027
Other Middle East	26,012	205,024	231,036
North America	28,319	3,842	32,161
Asia Pacific	43,377	4,670	48,047
Europe	10,042	120	10,162
Total	137,731	228,702	366,433

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

The distribution of assets and off-balance-sheet items by industry sector are as follows:

(US$ thousands)	**Assets**	**Off-balance - sheet**	**Total 30 June 2011**	Total 31 December 2010 (restated)
INDUSTRY SECTOR				
Banking and finance	**88,827**	**338**	**89,165**	137,731
Industrial	**9,574**	**-**	**9,574**	1,406
Real estate and construction	**42,314**	**-**	**42,314**	121,420
Technology	**219**	**3,000**	**3,219**	3,842
In-house funds	**843**	**-**	**843**	283
Trade	**33,328**	**-**	**33,328**	86,988
Individual	**8,836**	**-**	**8,836**	14,763
Total	**183,941**	**3,338**	**187,279**	366,433

3.1.3 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.

3.1.4 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 has now changed with the rollout of the new and updated scoring models in 2010 which from now on will be used for any new deal (while the existing investments are currently going through a rating process). Following is an analysis of credit quality by class of financial assets:

	30 June 2011				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairment/ provisions**	**Total**
Balances with banks	**7,412**	**-**	**-**	**-**	**7,412**
Placements with financial institutions	**64,292**	**-**	**-**	**-**	**64,292**
Financing receivables	**92,319**	**-**	**5,103**	**(5,103)**	**92,319**
Investment securities	**14,380**	**-**	**-**	**-**	**14,380**
Other assets	**4,662**	**876**	**1,638**	**(1,638)**	**5,538**
Guarantees	**3,338**	**-**	**-**	**-**	**3,338**
Total	**186,403**	**876**	**6,741**	**(6,741)**	**187,279**

3.1.4 Credit quality per class of financial assets (continued)

	31 December 2010 (restated)				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairment/ provisions	Total
Balances with banks	43,928	-	-	-	43,928
Placements with financial institutions	67,437	-	-	-	67,437
Financing receivables	234,155	258	6,614	(6,614)	234,413
Investment securities	12,979	-	3,650	(2,555)	14,074
Other assets	3,155	69	5,675	(5,675)	3,224
Guarantees	3,357	-	-	-	3,357
Total	365,011	327	15,939	(14,844)	366,433

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

	30 June 2011			
	Less than 120 days	**Less than 365 days**	**More than 365 days**	**Total**
Other assets	**54**	**799**	**23**	**876**

	31 December 2010 (restated)			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Financing receivables	258	-	-	258
Other assets	7	62	-	69

	Specific Provisions against			
	Financing Receivables	**Other Assets**	**Investment securities**	**Total**
At the beginning of the period	6,614	5,675	2,555	14,844
New Provision made	-	-	-	-
Write off	-	-	-	-
Recoveries / Write backs	(1,511)	(4,037)	(2,555)	(8,103)
Balance at the ending of the period	**5,103**	**1,638**	-	**6,741**

The Group does not maintain any general collective provisions as of 30 June 2011.

3.2 Liquidity Management

The key features of the Group's liquidity methodology are:

- The Bank manages liquidity via its Asset and Liability Committee **("ALCO")** process.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

To guide the above processes, the Bank has an Asset and Liability Management Policy in place, which was approved by the Board. This Policy outlines roles and responsibilities for asset and liability management, internal liquidity thresholds for the "normal scenario" and the "stress scenario" as well as a liquidity contingency plan outlining processes to be taken in the case of a liquidity crisis.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**
At 30 June 2011				
Due to financial and non-financial Institutions	**154,524**	**57,968**	**-**	**212,492**
Subordinated Murabaha	**-**	**-**	**-**	**-**
Other liabilities	**9,941**	**-**	**2,817**	**12,758**
Total financial liabilities	**164,465**	**57,968**	**2,817**	**225,250**
Total undiscounted financial liabilities	**164,881**	**58,686**	**3,180**	**226,747**
Restricted Investment Accounts	**20,417**	**-**	**-**	**20,417**

	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2010				
Due to financial and non-financial Institutions	353,338	40,642	-	393,980
Subordinated Murabaha	-	1,249	50,000	51,249
Other liabilities	8,697	6,006	3,232	17,935
Total financial liabilities	362,035	47,897	53,232	463,164
Total undiscounted financial liabilities	364,280	50,610	65,699	480,589
Restricted Investment Accounts	-	-	-	-

3.2 Liquidity Management (continued)

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

	On demand	3 to 12 months	Over 1 year	Total
30 June 2011				
Commitments	**-**	**19,826**	**4,728**	**24,554**
Guarantees	**3,338**	**-**	**-**	**3,338**
Total	**3,338**	**19,826**	**4,728**	**27,892**
31 December 2010				
Commitments	1,137	1,086	2,295	4,518
Guarantees	3,357	-	-	3,357
Total	4,494	1,086	2,295	7,875

3.3 Market Risk

Market risk is the risk 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 long-term foreign currency exposure from its foreign currency denominated investments.

3.4 Market Risk: Non-trading

3.4(a) 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 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: sums due from financial and non-financial institutions, investment in Sukuk and due to financial and non-financial institutions.

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.

	30 June 2011			31 December 2010 (restated)		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	**64,292**	**200**	**571**	67,437	200	1,248
Financing receivables	**92,319**	**200**	**559**	234,413	200	2,636
Investment in Sukuk	**14,380**	**200**	**35**	14,074	200	58
Liabilities						
Due to financial and non-financial institutions	**212,492**	**200**	**(1,335)**	393,980	200	(4,586)
Total			**(170)**			(644)

3.4(a) Profit rate risk (continued)

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%. In June 2011, this facility was converted into ordinary shares in the Bank.

3.4(b) 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. In addition, Treasury Risk Mandates already in place guide the business lines on currency risk management including position and trading limits as well as establishing the full list of allowed currencies when trading.

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 changes in equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	30 June 2011			31 December 2010 (restated)		
Currency	**Exposure (USD equivalent)**	**Effect on net profit (+/-)**	**Effect on equity (+/-)**	Exposure (US$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	**(12,431)**	**(2,486)**	**-**	(12,134)	(2,427)	-
Turkish Lira	**10,366**	**249**	**1,824**	15,399	1,157	1,923
Malaysian Ringgit	**3,846**	**-**	**769**	4,373	-	875
Euro	**(5)**	**(1)**	**-**	1,174	(7)	242
Jordanian Dinar	**47,525**	**9,505**	**-**	28,136	5,627	-

3.4(c) 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 and by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Group. In 2010, the Board made a decision to exit the US private equity market and to this extent, the Bank has exited two investments and this has gradually reduced exposure to the US and as planned, increased concentration to the GCC, the Bank's core market.

The effect on income and equity (as a result of a change in the fair value of equity instruments as at 30 June 2011 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$13.7 million and US$1.4 million, respectively (31 December 2010: US$14.4 million and US$3.9 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.

3.4(c) Equity price risk (continued)

The Bank investment securities portfolio is as follows:

	30 June 2011	31 December 2010 (restated)
Equity type instruments:		
Fair value through income statement:		
- Quoted equity securities	29,587	28,067
- Unquoted equity securities	30,946	34,599
- Unquoted funds	30,506	33,462
Fair value through equity:		
- Quoted equity securities	8,098	10,196
- Unquoted equity securities	1,443	2,604
	100,580	108,928

The Bank realised and unrealised gains/losses for the investment securities portfolio recognised in the statement of income is as follows:

(US$ thousands)	**30 June 2011**	30 June 2010
Impairments	**-**	8,418
Fair value movements on investment securities	**3,514**	(51,467)
Gain on sale of investment securities	**3,282**	4,283

3.4(d) 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.

3.4(e) 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 competent people are in place throughout the Group.

The Bank has so far met the 2010 regulatory requirements for Basel II implementation, and as part of Basel II implementation, the Bank has put an operational risk framework in place including appointing Risk Champions, developing Process Maps and conducting Risk and Control Self-Assessments (“RCSA”) and is rolling out the same framework across the Group. Further to the above, the Bank has also made operational adjustments to its business continuity arrangements.

3.4(e) Operational Risk (continued)

Capital charge for operational risk	**2010**	2009
Gross Income	**17,775**	199,136
Average for preceding three years	**131,955**	162,596
Alpha	**15%**	15%
Capital charge for operational risk	**19,793**	24,389

3.5 Legal and other Contingencies

In August 2010, the Board of Directors unanimously resolved to terminate the former Chief Executive Officer and Managing Director ("CEO/MD") from his duties due to a number of alleged irregularities observed in the operations of the Bank during 2010 and 2009. The Board engaged an independent firm to investigate and report on the alleged irregularities and to estimate the financial impact thereof. This report has been submitted to the General Prosecutor in the Kingdom of Bahrain. The Bank has initiated legal action against the former CEO/MD. In view of the results of the original investigation contained in the report submitted to the General Prosecutor, and on advice of the Bank's legal counsel, the Bank is confident that damages will be awarded to the Bank. Further investigation relating to prior periods is currently in progress.

Employment claims against the Bank have been filed by former Bank employees. Based on the advice received by the Bank from its external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsel has also confirmed that the Bank has strong grounds to successfully defend itself against the claims. Accordingly, no provision for these claims has been made in the interim consolidated financial statements. No further disclosures regarding contingent liabilities arising from any of the employment claims are being made by the Bank as the Directors of the Bank believe that such disclosures may be prejudicial to the position of the Bank.

3.6 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.

	30 June 2011						
(US$ thousands)	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Undated	Total
ASSETS							
Cash and balances with banks	7,434	-	-	-	-	-	7,434
Placements with financial and institutions	57,117	2,938	3,281	956	-	-	64,292
Financing receivables	145	10,400	29,188	49,500	3,086	-	92,319
Investment securities	1,550	1,243	9,234	19,237	83,696	-	114,960
Investments in associates	-	-	-	-	112,375	-	112,375
Investment properties	-	-	-	-	17,706	-	17,706
Other assets	783	21,698	-	-	-	739	23,220
Premises and equipment	-	-	-	-	-	6,296	6,296
Assets held for sale	-	76,603	-	-	-	-	76,603
Total assets	67,029	112,882	41,703	69,693	216,863	7,035	515,205
Liabilities							
Due to financial and non financial institutions	95,904	58,621	44,932	13,035	-	-	212,492
Subordinated Murabaha	-	-	-	-	-	-	-
Other liabilities	1,154	8,787	-	9,761	-	2,817	22,519
Liabilities held for sale	-	32,837	-	-	-	-	32,837
Total liabilities	97,058	100,245	44,932	22,796	-	2,817	267,848
Net liquidity gap	(30,029)	12,637	(3,229)	46,897	216,863	4,218	247,357
Net cumulative gap	(30,029)	(17,392)	(20,621)	26,276	243,139	247,357	

3.6 Maturity Analysis of Assets and Liabilities (continued)

	31 December 2010 (restated)						
(US$ thousands)	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Undated	Total
ASSETS							
Cash and balances with banks	43,943	-	-	-	-	-	43,943
Placements with financial institutions	52,479	10,513	3,506	939	-	-	67,437
Financing receivables	15,049	88,299	84,013	30,000	17,052	-	234,413
Investment securities	6,404	5,783	9,234	47,159	54,422	-	123,002
Investments in associates	-	-	-	-	104,745	-	104,745
Investment properties	-	-	-	-	17,706	-	17,706
Other assets	629	6,910	-	-	-	1,093	8,632
Premises and equipment	-	-	-	-	-	7,147	7,147
Assets held for sale	-	120,923	-	-	-	-	120,923
Total assets	118,504	232,428	96,753	78,098	193,925	8,240	727,948
LIABILITIES							
Due to financial and non-financial institutions	231,947	121,391	40,642	-	-	-	393,980
Subordinated Murabaha	-	1,249	-	-	50,000	-	51,249
Other liabilities	1,461	7,236	-	11,042	-	7,957	27,696
Liabilities held for sale	-	52,617	-	-	-	-	52,617
Total liabilities	233,408	182,493	40,642	11,042	50,000	7,957	525,542
Net liquidity gap	(114,904)	49,935	56,111	67,056	143,925	283	202,406
Net cumulative gap	(114,904)	(64,969)	(8,858)	58,198	202,123	202,406	

3.7 Related Party Transactions

Related parties comprise major shareholders, directors and senior management of the Group; members of the Shari'ah Supervisory Board of the Group; and 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 investment companies and funds are undertaken on a commercial basis and strictly in accordance with the related underlying contracts.

3.7(a) Compensation of senior management personnel

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

(US$ thousands)	**30 June 2011 (reviewed)**	30 June 2010 (reviewed)
Short term employee benefits	**3,082**	4,386
Post employment benefits	**175**	333
Share-based payments	**-**	-
	3,257	4,719

3.7(b) Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and senior management personnel of the Group, members of the Shari'a 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.

3.7(b) Related Party Transactions (continued)

	30 June 2011 (reviewed)			31 December 2010 (restated)		
(US$ thousands)	**Shareholders / Directors**	**Senior management**	**Other entities**	Shareholders / Directors	Senior management	Other entities
Assets						
Financing Receivables	**-**	**-**	**20,746**	-	-	26,812
Investment securities	**-**	**-**	**75,531**	-	-	84,946
Investments in associates	**-**	**-**	**112,375**	-	-	104,745
Other assets	**-**	**596**	**4,446**	-	277	3,861
Assets held-for-sale	**-**	**-**	**76,603**	-	-	120,923
Liabilities						
Due to financial & non-financial institutions	**-**	**-**	**36,902**	-	-	47,066
Subordinated Murabaha	**-**	**-**	**-**	-	-	51,249
Other liabilities	**797**	**1,435**	**6,017**	1,566	2,390	3,692
Liabilities held-for-sale	**-**	**-**	**32,837**	-	-	52,617
Statement of income (30 June 2011 and 30 June 2010)						
Investment banking income	**-**	**-**	**3,630**	-	-	(18,322)
Net finance expense	**-**	**-**	**(1,318)**	-	-	(1,213)
Share of profit of associates	**-**	**-**	**2,896**	-	-	4,262
Other income	**1,299**	**-**	**4,504**	-	-	-
Impairments and provisions	**-**	**-**	**-**	-	-	(61,964)
Directors' and Shari'a board remuneration and expenses	**(282)**	**-**	**(181)**	(331)	-	(222)

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

3.8 Restricted Investment Accounts

The Bank offers Restricted Investment Accounts **("RIA's")** to both financial and non-financial institutions. All RIA offering documents are prepared and issued with input from business lines, Shari'ah Assurance, Financial Control, Legal and Risk Management departments to ensure all investors have sufficient information to consider all risk factors allowing them to make an informed decision. The Bank has clear guidelines and procedures for the development, management and risk mitigation of its RIA's. The Bank has established a robust operational and functional infrastructure to have effective internal control systems in place in ensuring RIA holders interests are protected at all times. The Bank is fully aware of its fiduciary duties and responsibilities in managing RIA's.

Total Income from RIA

(US$ thousands)	**30 June 2011 (reviewed)**	30 June 2010 (reviewed)	30 June 2009 (reviewed)
Gross Income	**552**	3,923	-
Wakil Fee	**(157)**	(956)	-