

# Consolidated Financial Statements

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## Independent Auditors' Report to the Shareholders



**Independent auditors' report to the shareholders**  
**Global Banking Corporation B.S.C. (c)**  
**Manama, Kingdom of Bahrain**

### Report on the consolidated financial statements

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

### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Board of Directors is also responsible for the Group's undertaking to operate in accordance with Islamic Shari'a 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 of 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 our judgement, 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, we consider 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 in 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 principles used and the reasonableness of accounting estimates made by management, 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 give a true and fair view of the financial position of the Group as at 31 December 2009, and of the results of its operations, cash flows, changes in equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank. In addition, in our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on other legal and regulatory requirements

In our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying Chairman's report and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

**KPMG**  
**Manama, Kingdom of Bahrain**  
**25 February 2010**

## Consolidated Statement of Financial Position

as at 31 December 2009  
(Expressed in US Dollars 000's)

	Note	31 December 2009	31 December 2008
<b>ASSETS</b>			
Cash and bank balances	4	33	1,074
Placements with financial and other institutions	5	44,590	297,872
Investment securities	6	71,801	23,982
Investment property	7	51,452	52,703
Receivable from investment banking services		-	42,975
Property and equipment	8	22,420	22,281
Other assets	9	7,359	14,981
<b>Total assets</b>		<b>197,655</b>	<b>455,868</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Investors' funds	10	3,775	223,269
Bank financing	11	29,841	43,222
Accruals and other liabilities	12	2,504	8,317
<b>Total liabilities</b>		<b>36,120</b>	<b>274,808</b>
<b>EQUITY</b>			
Share capital	13	173,750	156,250
Statutory reserve		5,801	5,801
(Accumulated losses) / retained earnings		(18,388)	19,009
Total equity attributable to equity holders of the Bank		161,163	181,060
Non-controlling interest		372	-
Total equity		161,535	181,060
Total liabilities and equity		197,655	455,868
<b>OFF-BALANCE SHEET ITEMS</b>			
Restricted investment accounts		190,000	190,000

The consolidated financial statements, were approved by the Board of Directors on 25 February 2010 and signed on its behalf by:

**Saleh Al Ali Al Rashed**  
Chairman

**A. Rahman Mohammed Al Jasmi**  
Vice Chairman & Managing Director

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Consolidated Income Statement

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

	Note	2009	2008
Income from investment banking services		4,956	40,570
Income from placements with financial and other institutions	17	1,721	8,257
Placement and arrangement fees		-	2,203
(Loss) / income from investment securities	14	(916)	1,070
Rental income from investment property		2,261	1,093
Other income		1,318	-
<b>Total income</b>		<b>9,340</b>	<b>53,193</b>
Staff cost	15	9,320	14,637
Professional and travel expenses		3,059	8,567
Marketing and corporate communication expenses		1,774	2,564
Finance expenses	17	2,172	1,344
Depreciation		4,116	1,239
Other operating expenses	16	3,214	3,626
Provision for impairment	6 (a)	4,528	-
<b>Total expenses</b>		<b>28,183</b>	<b>31,977</b>
<b>(Loss) / profit for the year</b>		<b>(18,843)</b>	<b>21,216</b>
<b>Attributable to:</b>			
Equity holders of the Bank		(18,817)	21,216
Non-controlling interest		(26)	-
		(18,843)	21,216

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

	2009	2008
<b>(Loss) / profit for the year</b>	(18,843)	21,216
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>(18,843)</b>	<b>21,216</b>
<b>Attributable to:</b>		
Equity holders of the Bank	(18,817)	21,216
Non-controlling interest	(26)	-
	(18,843)	21,216

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

2009	Attributable to equity holders of the Bank				Non-controlling interest	Total
	Share capital	Statutory reserve	(Accumulated losses) / retained earnings	Total		
Balance at 1 January 2009	156,250	5,801	19,009	181,060	-	181,060
Total comprehensive income for the year	-	-	(18,817)	(18,817)	(26)	(18,843)
Capitalisation of reserves (note 13)	17,500	-	(17,500)	-	-	-
Board remuneration declared for 2008 (note 19)	-	-	(1,080)	(1,080)	-	(1,080)
Contribution by non-controlling interest	-	-	-	-	398	398
<b>Balance at 31 December 2009</b>	<b>173,750</b>	<b>5,801</b>	<b>(18,388)</b>	<b>161,163</b>	<b>372</b>	<b>161,535</b>

2008	Attributable to equity holders of the Bank				Non-controlling interest	Total
	Share capital	Statutory reserve	Retained Earnings	Total		
Balance at 1 January 2008	125,000	3,589	32,305	160,894	-	160,894
Total comprehensive income for the year	-	-	21,216	21,216	-	21,216
Capitalisation of reserves	31,250	-	(31,250)	-	-	-
Board remuneration declared for 2007	-	-	(1,050)	(1,050)	-	(1,050)
Transfer to statutory reserve	-	2,212	(2,212)	-	-	-
<b>Balance at 31 December 2008</b>	<b>156,250</b>	<b>5,801</b>	<b>19,009</b>	<b>181,060</b>	<b>-</b>	<b>181,060</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

	2009	2008
<b>Operating Activities</b>		
Investors' funds received	13,026	556,831
Investors' funds paid	(237,042)	(400,061)
Income from investment banking services received	7,744	42,739
Rental income from investment property received	2,783	510
Payments for property related expenses	-	(913)
Payments for expenses and project costs	(16,968)	(28,362)
Income from placements with financial institutions received	1,721	8,257
Financing of projects, net	-	10,358
Placement and arrangement fees received	-	3,319
Advance operating lease rentals	-	(2,759)
<b>Cash flows from operating activities</b>	<b>(228,736)</b>	<b>189,919</b>
<b>Investing Activities</b>		
Payment for acquisition of investment property	-	(39,962)
Expenditure on property and equipment	(1,297)	(19,807)
Payments for car park spaces	(2,758)	-
Proceeds from sale of property and equipment	92	-
Payments for acquisition of software	(126)	(1,147)
Purchase of investment securities	(5,277)	(2,205)
Advance for purchase of investment securities	-	(9,000)
Dividend and other income received	14	1,294
<b>Cash flows from investing activities</b>	<b>(9,352)</b>	<b>(70,827)</b>
<b>Financing Activities</b>		
Bank financing (repaid) / received	(15,553)	41,878
Contribution by non-controlling interest	398	-
Board remuneration paid	(1,080)	(1,050)
<b>Cash flows from financing activities</b>	<b>(16,235)</b>	<b>40,828</b>
(Decrease) / increase in cash and cash equivalents	(254,323)	159,920
Cash and cash equivalents at 1 January	298,946	139,026
<b>Cash and cash equivalents at 31 December</b>	<b>44,623</b>	<b>298,946</b>
Represented by:		
Cash and bank balances	33	1,074
Placements with financial and other institutions	44,590	297,872
	<b>44,623</b>	<b>298,946</b>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

2009	Balance at 1 January 2009			Movements during the year					Balance at 31 December 2009			
	No of units (000)	Average value per share US\$	Total	Investment	Gross income	Dividends paid	Bank's fees as an agent	Administrat-ion expenses	No of units (000)	Average value per share US\$	Total % ownership	
Makkah Hills – Cayman Islands	-	-	190,000	-	-	-	-	-	-	-	190,000	N/A
			190,000	-	-	-	-	-			190,000	

2008	Balance at 1 January 2008			Movements during the year					Balance at 31 December 2008			
	No of units (000)	Average value per share US\$	Total	Investment	Gross income	Dividends paid	Bank's fees as an agent	Administrat-ion expenses	No of units (000)	Average value per share US\$	Total % ownership	
Makkah Hills – Cayman Islands	-	-	66,500	123,500	-	-	-	-	-	-	190,000	N/A
Funds accepted under restricted Wakala contracts	-	-	91,809	(92,525)	716	-	-	-	-	-	-	N/A
			158,309	30,975	716	-	-	-			190,000	

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 1. INCORPORATION AND PRINCIPAL ACTIVITY

Global Banking Corporation B.S.C. (c) (the "Bank") was incorporated on 25 June 2007 in the Kingdom of Bahrain under Commercial Registration No.65708. The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board.

The principal activities of the Bank include investment banking services that comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

### Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together, "the Group").

The significant subsidiaries consolidated during the year include:

Name of the entity	% of holding	Place of incorporation	Date of incorporation	Nature of business
Global Energy Financial Services Company SPC	100%	Kingdom of Bahrain	18 May 2008	Financial investment and financial planning consultancy services
Diyafa Holdings Company WLL	90%	Kingdom of Bahrain	20 May 2009	Virtual offices and other related services

### 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group entities, except for the changes resulting from amendments made to accounting standards (refer note 2 (c)).

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards ('IFRS / IAS').

#### (b) Basis of preparation

The consolidated financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of trading investments and investment designated at fair value through profit or loss.

The Group classifies its expenses by the nature of expense method.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Standards, amendments and interpretations effective from 1 January 2009

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

#### IAS 1 (revised), 'Presentation of financial statements'

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements" on its required application date of 1 January 2009. Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either 1) a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or 2) in an income statement and a separate statement of comprehensive income. The Group has opted to present separate statements – an income statement and a separate statement of comprehensive income. Accordingly, a new primary statement of comprehensive income has been included in the consolidated financial statements along with the required comparative information.

#### Amendments to IFRS 7, 'Financial instruments: Disclosures'

The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement 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. These additional disclosures have been presented for the current financial reporting period and in line with the transitional provisions, comparative information has not been provided (refer note 28).

#### IFRS 8, 'Operating segments'

IFRS 8 "Operating Segments" is applicable for periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's lines of business comprise investment banking and property management.

From the current year, the Group presents its operating segment disclosures in accordance with IFRS 8 (refer note 29). Comparative segment information has been presented in conformity with the transitional requirements of the standard.

#### Improvements to IFRS (May 2008)

'Improvements to IFRS' issued in May 2008 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been considered by the Group and there have been no material changes to accounting policies as a result of these amendments.

### (d) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

#### (ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

#### (iii) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 18.

### (e) Foreign currency transactions

#### (i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

#### (iii) Group companies

The other Group companies functional currencies are either denominated in US dollars or currencies that are effectively pegged to the US dollars, and hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

### (f) Financial assets and liabilities

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, trading investments, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, bank financing, and other payable balances.

#### (i) Recognition and de-recognition

All financial assets (except investment securities) and liabilities are recognised on the date at which they are originated. Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

#### (ii) Classification of financial assets and liabilities

The Group allocates financial assets to the following IAS 39 categories: financial assets carried at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Except for investment securities (refer note 2 (g)), the Group classifies all other financial assets as loans and receivables. All of the financial liabilities of the Group are classified at amortised cost. Management determines the classification of its financial instruments at initial recognition.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Financial assets and liabilities (continued)

##### (iii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

##### Fair value measurement

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

##### Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

#### (g) Investment securities

The Group classifies its investment securities, excluding investment in subsidiaries (refer note 2 (d)), in the following categories: investment carried at fair value through profits or loss, held-to-maturity and available-for-sale investments.

##### (i) Classification

Investments carried at fair value through profit or loss are financial assets that are held for trading or which upon initial recognition are designated by the Group as fair value through profit or loss.

An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These include investments in quoted equities.

The Group designates investment securities at fair value through profit or loss at inception only when it is managed, evaluated and reported on internally on a fair value basis. These include investments in a managed fund.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale. The Bank currently does not hold any held-to-maturity investments.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in certain quoted and unquoted equity securities.

##### (ii) Initial recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on investments carried at fair value through profit or loss are expensed in the profit or loss when incurred.

##### (iii) Subsequent measurement

Subsequent to initial recognition, investments carried at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in the comprehensive income and presented in a separate fair value reserve within equity. When the available-for-sale investments are sold, impaired, collected or otherwise disposed

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

of, the cumulative gain or loss previously recognised in the statement of comprehensive income is transferred to the income statement.

Held-to-maturity investments are carried at amortised cost less any impairment allowances.

Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are carried at cost less impairment allowances.

##### (iv) Fair value measurement principles

Fair value for quoted investments is their market bid price.

#### (h) Placements with financial and other institutions

These comprise placements made under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

#### (i) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, bank balances and short-term highly liquid assets (placements with financial and other institutions) with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

#### (j) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. The Group follows the cost model to measure its investment property and carries it at cost less accumulated depreciation and impairment losses, if any. Land is not depreciated. Building is depreciated over a period of 30 years.

#### (k) Property and equipment

Property and equipment comprise land, building and equipment held for own use. Equipment is stated at cost, less accumulated depreciation and impairment losses (if any). Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is computed using the straight-line method to write off the cost of the assets over their estimated useful lives ranging from three to five years. Land is not depreciated. Building is depreciated over a period 30 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### (l) Intangible assets

Intangible assets comprise computer software acquired by the Group and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The intangible assets are amortised on a straight-line basis over 3 years, being the estimated useful life of the assets.

#### (m) Impairment of assets

The Bank assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Impairment of assets (continued)

##### Available-for-sale investments

In the case of available-for-sale equity securities carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. In case of equity securities quoted in active markets, the Group considers a decline in value of 20% below cost or a decline in value that persists for more than 6 months as an indicator of impairment. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

##### Other non-financial assets

The carrying amount of the Group's other non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

#### (n) Bank financing

Bank financing comprise Murabaha financing from a financial institution for acquisition of an investment property. Bank financing is initially measured at fair value plus transaction costs, and subsequently measured at its amortised cost using the effective profit rate method.

#### (o) Finance expenses

Finance expenses are capitalised if they are directly attributable to the acquisition of a qualifying asset. Capitalisation of finance expenses commences when the activities to prepare the asset are in progress and expenditures and finance expenses are incurred. Finance expenses are capitalised until the assets are substantially ready for their intended use and allocated between the investment property and self-occupied property based on their determined usage. Other finance expenses are recognised in the income statement.

#### (p) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

#### (q) Share capital and reserves

Ordinary shares are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares.

##### Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

#### (r) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or an agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

#### (s) Revenue recognition

Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction.

Placement and arrangement fees are recognised when services are performed and income is earned.

Income from placements with financial and other institutions is recognised on a time-apportioned basis over the period of the related contract.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Rental income from investment property leased out under operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

#### (t) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

#### (u) Zakah

The Group is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Group is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

#### (v) Employee benefits

##### (i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

##### (ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" under IAS 19 and any increase or decrease in the benefit obligation is recognised in the income statement.

#### (w) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

#### Judgements

##### (i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss or held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (g)].

##### (ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

#### Estimations

##### (i) Impairment on available-for-sale investments

Available-for-sale investments where fair values are not readily available and are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgement of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

##### (ii) Impairment on receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation, level of subordination available to the Bank and the net realisable value of any underlying assets. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

### 4. CASH AND BANK BALANCES

	31 December 2009	31 December 2008
Cash	3	5
banks Balances	30	1,069
	<b>33</b>	<b>1,074</b>

### 5. PLACEMENTS WITH FINANCIAL AND OTHER INSTITUTIONS

	31 December 2009	31 December 2008
Wakala contracts	34,589	287,850
Commodity murabaha contacts	10,009	10,037
Less: Deferred profits	(8)	(15)
	<b>44,590</b>	<b>297,872</b>

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

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### 6. INVESTMENT SECURITIES

#### Investment securities comprise

	31 December 2009	31 December 2008
Available-for-sale investments	67,252	23,780
Investments designated at fair value through profit or loss	4,310	-
Trading investments	239	202
	<b>71,801</b>	<b>23,982</b>

#### (a) Available-For-Sale Investments

	2009	2008
At 1 January	23,780	12,000
Acquisitions during the year	48,000	11,780
Provision for impairment during the year	(4,528)	-
<b>At 31 December</b>	<b>67,252</b>	<b>23,780</b>

Available-for-sale investments are private equity investments in projects promoted by the Group. Available-for-sale investments of US\$ 67,252 thousand (2008: US\$ 23,780 thousand) are carried at cost less impairment allowance in the absence of reliable measure of the fair value. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or at the time of initial public offerings.

During the year, the Bank recognised an impairment allowance of US\$ 4,528 thousand (2008: nil) on the available-for-sale investments. The impairment allowances has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

### 7. INVESTMENT PROPERTY

Investment property comprise that portion of land and building let out under operating leases. The carrying value of the investment property is given below:

	Land	Building	2009 Total	2008 Total
<b>Cost</b>				
At 1 January	15,701	37,523	53,224	-
Additions during the year	-	-	-	53,224
<b>At 31 December</b>	<b>15,701</b>	<b>37,523</b>	<b>53,224</b>	<b>53,224</b>
<b>Depreciation</b>				
At 1 January	-	521	521	-
Charge for year	-	1,251	1,251	521
<b>At 31 December</b>	<b>-</b>	<b>1,772</b>	<b>1,772</b>	<b>521</b>
<b>Net book value at 31 December</b>	<b>15,701</b>	<b>35,751</b>	<b>51,452</b>	<b>52,703</b>

The fair value of the investment property at 31 December 2009 was US\$ 58,013 thousand (2008: US\$ 62,820 thousand). The fair value is determined during the year, by an external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. The valuation is prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield that reflects the inherent risk in the net cash flows is then applied to the net results to arrive at the property valuation.

## Notes to the Consolidated Financial Statements

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### 8. PROPERTY AND EQUIPMENT

	Land	Building	Fixture and equipment	Furniture	Motor vehicles	2009 Total	2008 Total
<b>Cost</b>							
At 1 January	4,399	10,512	5,978	1,087	96	22,072	246
Additions during the year	-	-	2,894	220	100	3,214	21,826
Disposals during the year	-	-	-	-	(126)	(126)	
<b>At 31 December</b>	<b>4,399</b>	<b>10,512</b>	<b>8,872</b>	<b>1,307</b>	<b>70</b>	<b>25,160</b>	<b>22,072</b>
<b>Depreciation</b>							
At 1 January	-	146	574	92	26	838	27
Charge for the year	-	350	1,630	245	28	2,253	811
Disposals during the year	-	-	-	-	(22)	(22)	-
At 31 December	-	496	2,204	337	32	3,069	838
<b>Net book value at 31 December</b>	<b>4,399</b>	<b>10,016</b>	<b>6,668</b>	<b>970</b>	<b>38</b>	<b>22,091</b>	<b>21,234</b>
Capital work-in-progress	-	-	-	-	-	329	1,047
<b>Total</b>	<b>4,399</b>	<b>10,016</b>	<b>6,668</b>	<b>970</b>	<b>38</b>	<b>22,420</b>	<b>22,281</b>

The fair value of the land and building is not materially different from the carrying values.

### 9. OTHER ASSETS

	31 December 2009	31 December 2008
Subscription for investment	-	9,000
Prepayment for car park spaces	5,287	-
Advance operating lease rentals	-	2,759
Computer software and licenses, net	858	1,115
Project costs recoverable	278	1,069
Prepayments and other receivables	936	1,038
	<b>7,359</b>	<b>14,981</b>

### 10. INVESTORS' FUNDS

These represent funds of projects set-up or promoted by the Bank which are placed with the Bank pending utilisation by the projects concerned.

### 11. BANK FINANCING

Bank financing comprise murabaha financing obtained from a financial institution in 2008 for the purpose of acquisition of a property (refer note 7). The financing carries a profit rate of 2.50% over the bench mark rate (BIBOR) and is repayable in quarterly instalments over 4 years. The financing is secured by mortgage on both land and building and assignment of rent from the property.

### 12. ACCRUALS AND OTHER LIABILITIES

	31 December 2009	31 December 2008
Employee related accruals	630	5,671
Payables and other accruals	1,874	2,646
	<b>2,504</b>	<b>8,317</b>

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### 13. SHARE CAPITAL

	31 December 2009	31 December 2008
<b>Authorised:</b>		
500,000,000 ordinary shares of US\$ 1 each	500,000	500,000
<b>Issued and subscribed:</b>		
250,000,000 ordinary shares of US\$ 1 each	250,000	250,000
<b>Paid up:</b>		
250,000,000 ordinary shares partly paid US\$ 0.695 each (2008: US\$ 0.625 each)	173,750	156,250

In the annual general meeting on 22 February 2009, the shareholders resolved to increase the paid up capital of the Bank from US\$ 156.25 million to US\$ 173.75 million by capitalisation of retained earnings.

### 14. (LOSS) / INCOME FROM INVESTMENT SECURITIES

	2009	2008
Dividends received from available-for-sale investments	14	1,294
Change in fair value of investments designated at fair value through profit or loss	(967)	-
Gain / (loss) on trading investments	37	(224)
	<b>(916)</b>	<b>1,070</b>

### 15. STAFF COST

	2009	2008
Salaries and benefits	8,588	13,586
Social insurance expenses	512	527
Other staff expenses	220	524
	<b>9,320</b>	<b>14,637</b>

### 16. OTHER OPERATING EXPENSES

	2009	2008
Premises costs	1,820	1,866
Other expenses	1,394	1,760
	<b>3,214</b>	<b>3,626</b>

### 17. TOTAL FINANCE INCOME AND EXPENSE

	2009	2008
Income from placements with financial and other institutions	1,721	8,257
Finance expenses	(2,172)	(1,344)
<b>Net finance (expense) / income</b>	<b>(451)</b>	<b>6,913</b>

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### 18. FUNDS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US\$ 689,767 thousand (2008: US\$ 722,900 thousand). During the year, the Bank has not charged any management fees for activities related to management of assets (2008: US\$ 2,620 thousand).

### 19. PROPOSED APPROPRIATIONS

The Board of Directors proposes the following appropriations subject to the approval of the shareholders at the annual general meeting:

	2009	2008
Proposed dividend (note 13)	-	17,500
Board remuneration	-	1,080

### 20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

The Group's income from investment banking services is from an entity over which the Group exercises influence. Although the entity is considered a related party, the Group administers and manages the entity on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investment. The transactions with these entities are based on agreed terms in the private placement memorandum.

The significant related party balances and transactions (excluding compensation to key management personnel) included in these consolidated financial statements are as follows:

31 December 2009	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
<b>Assets</b>				
Investment securities	-	12,402	54,850	67,252
Other assets	-	116	36	152
<b>Liabilities</b>				
Investors' funds	-	-	3,775	3,775
<b>Income</b>				
Income from investment banking services	-	-	4,956	4,956
Rental income from investment property	-	612	175	787
Provision for impairment	-	1,378	3,150	4,528

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31 December 2008	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
<b>Assets</b>				
Investment securities	-	13,780	10,000	23,780
Receivable from investment banking services	-	-	42,975	42,975
Investment property	-	66,313	-	66,313
Other assets	-	169	10,069	10,238
<b>Liabilities</b>				
Investors' funds	-	-	223,269	223,269
<b>Income</b>				
Income from investment banking services	-	-	40,570	40,570
Income from investment securities	-	1,197	-	1,197
Rental income from investment property	-	339	-	339
<b>Commitments</b>				
Commitments to invest	-	-	21,000	21,000

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	2009 (US\$ 000's)	2008 (US\$ 000's)
Board remuneration	1,080	1,050
Board member fees	269	172
Salaries and other short-term benefits	1,768	1,892
Post employment benefits	47	31

### 21. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2009 is US cents 0.40 (2008: US cents 0.70) for every share held.

### 22. EARNINGS PROHIBITED BY SHARI'A

During the year, there were no earnings from non-Islamic transactions that are prohibited by Shari'a (2008: Nil).

### 23. SHARI'A SUPERVISORY BOARD

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

## Notes to the Consolidated Financial Statements

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### 24. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

### 25. MATURITY PROFILE

The table below shows the maturity profile of the Group's financial assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment.

31 December 2009	Up to 3 months (US\$ 000's)	3 months to 6 months (US\$ 000's)	6 months to 1 year (US\$ 000's)	1 year to 3 years (US\$ 000's)	Over 3 years (US\$ 000's)	Total (US\$ 000's)
<b>Assets</b>						
Bank balances	30	-	-	-	-	30
Placements with financial and other institutions	44,590	-	-	-	-	44,590
Investment securities	239	-	10,000	61,562	-	71,801
Other financial assets	582	-	-	-	-	582
<b>Total financial assets</b>	<b>45,441</b>	<b>-</b>	<b>10,000</b>	<b>61,562</b>	<b>-</b>	<b>117,003</b>
<b>Liabilities</b>						
Investors' funds	-	3,775	-	-	-	3,775
Bank financing	3,603	3,721	7,348	15,169	-	29,841
Other financial liabilities	551	-	-	-	-	551
<b>Total financial liabilities</b>	<b>4,154</b>	<b>7,496</b>	<b>7,348</b>	<b>15,169</b>	<b>-</b>	<b>34,167</b>
<b>Off-balance sheet items</b>						
Restricted investment accounts	-	-	190,000	-	-	190,000
Commitments	158	-	-	-	-	158

### 31 December 2008

<b>Assets</b>						
Bank balances	1,069	-	-	-	-	1,069
Placements with financial and other institutions	297,872	-	-	-	-	297,872
Investment securities	202	-	-	23,780	-	23,982
Receivable from investment banking services	-	1,000	39,370	2,605	-	42,975
Other financial assets	-	-	1,663	-	-	1,663
<b>Total financial assets</b>	<b>299,143</b>	<b>1,000</b>	<b>41,033</b>	<b>26,385</b>	<b>-</b>	<b>367,561</b>
<b>Liabilities</b>						
Investors' funds	193,790	29,479	-	-	-	223,269
Bank financing	3,591	3,505	6,947	26,127	3,052	43,222
Other financial liabilities	1,254	-	-	-	-	1,254
<b>Total financial liabilities</b>	<b>198,635</b>	<b>32,984</b>	<b>6,947</b>	<b>26,127</b>	<b>3,052</b>	<b>267,745</b>
<b>Off-balance sheet items</b>						
Restricted investment accounts	-	-	-	190,000	-	190,000
Commitments	22,964	1,380	-	-	-	24,344

## Notes to the Consolidated Financial Statements

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### 26. CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS

#### a) Industry sector

31 December 2009	Banks and financial institutions (US\$ 000's)	Real estate (US\$ 000's)	Others (US\$ 000's)	Total (US\$ 000's)
<b>Assets</b>				
Cash and bank balances	30	-	3	33
Placements with financial and other institutions	44,590	-	-	44,590
Investment securities	239	67,252	4,310	71,801
Investment property	-	51,452	-	51,452
Property and equipment	-	15,736	6,684	22,420
Other assets	-	5,413	1,946	7,359
<b>Total assets</b>	<b>44,859</b>	<b>139,853</b>	<b>12,943</b>	<b>197,655</b>
<b>Liabilities</b>				
Investors' funds	-	3,775	-	3,775
Bank financing	29,841	-	-	29,841
Accruals and other liabilities	-	-	2,504	2,504
<b>Total liabilities</b>	<b>29,841</b>	<b>3,775</b>	<b>2,504</b>	<b>36,120</b>
<b>Off-balance sheet items</b>				
Restricted investment accounts	-	190,000	-	190,000
Commitments	-	-	158	158

#### 31 December 2008

<b>Assets</b>				
Cash and bank balances	1,069	-	5	1,074
Placements with financial and other institutions	297,872	-	-	297,872
Investment securities	202	23,780	-	23,982
Receivable from investment banking services	-	42,975	-	42,975
Investment property	-	52,703	-	52,703
Property and equipment	-	14,764	7,517	22,281
Other assets	584	12,877	1,520	14,981
<b>Total assets</b>	<b>299,727</b>	<b>147,099</b>	<b>9,042</b>	<b>455,868</b>
<b>Liabilities</b>				
Investors' funds	-	223,269	-	223,269
Bank financing	43,222	-	-	43,222
Accruals and other liabilities	-	-	8,317	8,317
<b>Total liabilities</b>	<b>43,222</b>	<b>223,269</b>	<b>8,317</b>	<b>274,808</b>
<b>Off-balance sheet items</b>				
Restricted investment accounts	-	190,000	-	190,000
Commitments	21,000	-	3,344	24,344

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### 26. CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS (continued)

#### b) Geographic region

Concentration is measured based on the location of the underlying operating assets and not based on the location of the investments. The Group's concentration exposure as at 31 December 2009 and 31 December 2008 is limited to GCC countries.

### 27. COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group:

	31 December 2009 (US\$ 000's)	31 December 2008 (US\$ 000's)
Commitments to invest	-	21,000
Operating lease commitment	-	2,758
Capital commitments	158	586

#### Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2009 due to the performance of any of its projects.

### 28. FINANCIAL INSTRUMENTS

#### a) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of the financial instruments of the Group is as given below:

	Available-for-sale (US\$ 000's)	Loans and receivables (US\$ 000's)	Fair value through profit or loss (US\$ 000's)	Others at amortised cost (US\$ 000's)	Total (US\$ 000's)
<b>31 December 2009</b>					
<b>Assets</b>					
Bank balances	-	30	-	-	30
Placements with financial and other institutions	-	44,590	-	-	44,590
Investment securities	67,252	-	4,549	-	71,801
Receivable from investment banking services	-	-	-	-	-
Other financial assets	-	582	-	-	582
<b>Total financial assets</b>	<b>67,252</b>	<b>45,202</b>	<b>4,549</b>	<b>-</b>	<b>117,003</b>
<b>Liabilities</b>					
Investors' funds	-	-	-	3,775	3,775
Bank financing	-	-	-	29,841	29,841
Other financial liabilities	-	-	-	551	551
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,167</b>	<b>34,167</b>

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009  
(Expressed in US Dollars 000's)

	Available-for-sale (US\$ 000's)	Loans and Fair value through receivables profit or loss (US\$ 000's)	Others at amortised cost (US\$ 000's)	Total (US\$ 000's)
<b>31 December 2008</b>				
<b>Assets</b>				
Bank balances	-	1,069	-	1,069
Placements with financial and other institutions	-	297,872	-	297,872
Investment securities	23,780	-	202	23,982
Receivable from investment banking services	-	42,975	-	42,975
Other financial assets	-	1,663	-	1,663
<b>Total financial assets</b>	<b>23,780</b>	<b>343,579</b>	<b>202</b>	<b>367,561</b>
<b>Liabilities</b>				
Investors' funds	-	-	223,269	223,269
Islamic financing	-	-	43,222	43,222
Other financial liabilities	-	-	1,254	1,254
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>267,745</b>	<b>267,745</b>

#### b) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than available-for-sale investments of US\$ 68,630 thousand (2008: US\$ 23,780 thousand) (note 6 (a)), the estimated fair values of the Group's other financial instruments are not significantly different from their carrying values.

#### c) Fair value hierarchy

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 (US\$ 000's)	Level 2 (US\$ 000's)	Level 3 (US\$ 000's)	Total (US\$ 000's)
<b>2009</b>				
Investment securities	-	-	-	-
Investments designated at fair value through profit or loss	4,310	-	-	4,310
Trading investments	239	-	-	239
<b>Total assets</b>	<b>4,549</b>	<b>-</b>	<b>-</b>	<b>4,549</b>

### 29. OPERATING SEGMENTS

The Group has two distinct operating segments, Investment banking and Property management, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 29. OPERATING SEGMENTS (continued)

The following summary describes the operations in each of the Group's operating reportable segments:

- **Investment banking:** The investment banking segment of the Group focuses on providing structuring opportunities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.
- **Property management:** This business unit primarily is involved management of real estate and related assets.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Bank classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities relate to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Bank does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 26 to the consolidated financial statements.

The Group is presenting segment information for the first time and comparative information for 2008 has been presented in line with the current year presentation.

Information regarding the results of each reportable segment is included below:

	Investment banking (US\$ 000's)	Property management (US\$ 000's)	Unallocated (US\$ 000's)	Total (US\$ 000's)
<b>2009</b>				
External revenue	5,215	2,184	1,941	9,340
Segment result	(12,879)	(2,981)	(2,983)	(18,843)
Segment assets	72,079	56,811	68,765	197,655
Segment liabilities	4,705	30,137	1,278	36,120
Other material items:				
Finance income	-	-	1,721	1,721
Finance expenses	-	1,796	376	2,172
Depreciation	-	1,251	2,231	3,482
Provision for impairment	4,528	-	-	4,528
Commitments	-	-	158	158
Restricted investment accounts	190,000	-	-	190,000

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

2008	Investment banking (US\$ 000's)	Property management (US\$ 000's)	Unallocated (US\$ 000's)	Total (US\$ 000's)
External revenue	43,843	1,093	8,257	53,193
Segment result	22,708	(2,394)	902	21,216
Segment assets	299,226	67,467	89,175	455,868
Segment liabilities	223,269	43,222	8,317	274,808
Other material items:				
Finance income	-	-	8,257	8,257
Finance expense	-	1,344	-	1,344
Depreciation	-	521	811	1,332
Provision for impairment	-	-	-	-
Commitments	21,000	-	3,344	24,344
Restricted investment accounts	190,000	-	-	190,000

### 30. FINANCIAL RISK MANAGEMENT

#### Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, available-for-sale investments, investments designated at fair value through profit or loss, receivable from investment banking services and other receivable balances. Financial liabilities of the Group comprise investors' funds, bank financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

#### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk and Audit Committee ("RAC"), which is responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The RAC is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

The RAC submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The report also provides comments as to how risk factors are being addressed by the Group and the change in risk rating from the previous quarter. The Liquidity Risk Report measure the Bank's liquidity risk profile against policy guidelines.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 30. FINANCIAL RISK MANAGEMENT (continued)

#### a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's balances with banks, placements with financial and other institutions and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

#### Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Risk and Audit Committee which is also responsible for oversight of the limits and guidelines set by the Board.

Risk is assessed on an individual basis for each receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit exposures are subject to regular reviews by the Risk Management Department.

The maximum credit risk exposure has been disclosed below:

#### Exposure to credit risk

	Bank balances (US\$ 000's)	Placements with financial and other institutions (US\$ 000's)	Receivable from investment banking services (US\$ 000's)	Other financial assets (US\$ 000's)
<b>2009</b>				
<b>Neither past due nor impaired</b>				
Carrying amount	30	44,590	-	582
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Carrying amount	30	44,590	-	582

2008

Neither past due nor impaired

Carrying amount	1,069	297,872	39,370	1,663
Past due but not impaired (above 180 days)	-	-	3,605	-
Individually impaired	-	-	-	-
Carrying amount	1,069	297,872	42,975	1,663

The Group's credit risk on bank balances and placements with financial and other institutions is limited as these are placed with banks in GCC having good credit ratings. The other credit exposures have been evaluated on a case-by-case basis and the management has assessed that the exposures are currently performing and not impaired.

#### Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables agreement(s).

#### Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 26.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

#### b. Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

#### Management of liquidity risk

The Board of Directors approves significant policies and strategies related to the management of liquidity. The Management reviews the liquidity profile of the Group on a regular basis and any material change in the Bank's current or prospective liquidity position is notified to the Board.

The ALCO supports the Board in managing liquidity by recommending policies, setting limits and guidelines and monitoring the risk and liquidity profile of the Group on a regular basis. The ALCO provides guidance for day-to-day management of liquidity, oversees the establishment of effective internal controls and ensures that the Group has adequate liquidity at all times.

The day-to-day management of the Group's liquidity is the responsibility of the Treasury Department. The Department ensures that adequate funds are available to meet the maturing obligations and growth in assets while cost is minimised. The Department ensures that all limits and guidelines set by the Board and ALCO are complied with and any adverse development is reported to the ALCO. The Department also obtains the exceptional approvals when required as per this policy and manages the relationship with other banks and financial institutions.

The Risk Management Department reviews the limits set on an ongoing basis and ensures that the concerned department is complying with all limits set as per this policy. The Risk Management Department ensures that any adverse development is reported to the people concerned. Whenever exceptional approvals are required, they are first subject to the review and approval of the Risk Management Department.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. Refer note 25 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					Total	Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years		
<b>31 December 2009</b>							
<b>Financial liabilities</b>							
Investors' funds	-	3,775	-	-	-	3,775	3,775
Bank financing	3,603	3,721	7,348	17,439	-	32,111	29,841
Other financial liabilities	551	-	-	-	-	551	551
<b>Total financial liabilities</b>	<b>4,154</b>	<b>7,496</b>	<b>7,348</b>	<b>17,439</b>	<b>-</b>	<b>36,437</b>	<b>34,167</b>
<b>Off-balance sheet items</b>							
Capital commitments	158	-	-	-	-	158	-
<b>31 December 2008</b>							
<b>Financial liabilities</b>							
Investors' funds	193,790	29,479	-	-	-	223,269	223,269
Bank financing	3,973	3,882	7,684	28,903	3,375	47,817	43,222
Other financial liabilities	1,254	-	-	-	-	1,254	1,254
<b>Total financial liabilities</b>	<b>199,017</b>	<b>33,361</b>	<b>7,684</b>	<b>28,903</b>	<b>3,375</b>	<b>272,340</b>	<b>267,745</b>
<b>Off-balance sheet items</b>							
Capital commitments	22,964	1,380	-	-	-	24,344	-

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 30. FINANCIAL RISK MANAGEMENT (continued)

#### c. Market Risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### Exposure to profit rate risk

Profit rate risk arises due to differences in timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly placements with financial and other institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The effective profit rates on the profit bearing financial instruments are given below:

	2009	2008
Placements with financial and other institutions	1.53%	3.13%
Bank financing	4.74%	5.61%

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market financing rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2009 (US\$ 000's)	2008 (US\$ 000's)
At 31 December 2009	± 145	± 2,547
Average for the period	± 723	± 2,086
Maximum for the period	± 1,258	± 3,936
Minimum for the period	± 145	± 586

#### Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Group does not have significant net exposures denominated in other foreign currencies as at 31 December 2009 and 31 December 2008.

#### Exposure to other market risks

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The Group does not have significant exposure to listed equity instruments. The Group's exposure is detailed in note 6 to these consolidated financial statements.

#### d. Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Bank is committed to the training of its staff. The Bank conducted Risk Control Self Assessment of Operational risk in all departments of the Bank to identify the important Key Risk Areas and Key Risk Triggers.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 31. CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is based on the Basel II and IFSB framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework. During 2009, the Bank was in compliance with the capital limits set by the regulator for the Bank.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board of Directors.

The Group's regulatory capital position at 31 December was as follows:

	2009 (US\$ 000's)	2008 (US\$ 000's)
Capital adequacy		
Total risk weighted assets	413,708	597,804
Tier 1 capital	146,337	181,060
Tier 2 capital	-	-
Total regulatory capital	146,337	181,060
<b>Total regulatory capital expressed as a percentage of total risk weighted assets</b>	<b>35.37%</b>	<b>30.29%</b>

### 32. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION

The following standards and interpretations have been issued by standard setters during 2009 and are mandatory for the Group's accounting for annual periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

#### a. International Financial Reporting Standards and interpretations issued by the IASB

- IAS 27 Consolidated and Separate Financial Statements (amended 2008)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

(Expressed in US Dollars 000's)

### 32. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE FOR ADOPTION (continued)

#### • IFRS 9 'Financial Instruments'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- 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 profit or loss. 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 other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

#### • Improvements to IFRSs

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

#### b. Financial Accounting Standards issued by AAOIFI

- FAS 23 Consolidation (effective for annual periods beginning on or after 1 January 2010); and

The requirements of this standard is largely in line with the current policies followed by the Group for accounting of subsidiaries and the adoption of this standard is not expected to have any material impact on the consolidated financial statements.

The Group had not early adopted any new or amended standards in 2009.

### 33. COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

These disclosures have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Report under Volume 2 of the Rule Book issued by the CBB for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced.

# Risk and Capital Management Disclosures (BASEL II - PILLAR III)

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# Risk and Capital Management Disclosures (BASEL II - PILLAR III)

## 1 INTRODUCTION

Global Banking Corporation B.S.C. (c) (the "Bank") was incorporated on 25th June 2007 under the commercial registration number 65708 in the Kingdom of Bahrain and licensed by the Central Bank of Bahrain ("CBB") as an Islamic whole sale bank. The Bank's business model enables the Bank to offer a comprehensive range of investment banking products and services to high net worth individuals, corporate entities, and financial institutions in compliance with Shari'a principles.

CBB Basel II guidelines are effective from 1st January 2008 as the common framework for the implementation of Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The new framework intends to strengthen the risk management practices and processes within financial institutions. The Bank has accordingly taken steps to comply with these requirements. The CBB's capital management framework, consistent with the Basel II accord, is built on three pillars:

- Pillar I: calculation of the risk weighted amounts and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process.
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

The Public Disclosure (PD) module Section 1.3 of Volume 2 of the CBB rule book governs the disclosure requirements to be made by Islamic banks in their annual report. In April 2008, the CBB revised the PD module to cover the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar 3 of Basel II and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks. Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2009, presented 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). To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures. These disclosures should be read in conjunction with the group's consolidated financial statements for the year ended 31 December 2009.

## 2 EXECUTIVE SUMMARY

The Bank maintains an adequate capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the regulations and ratio established by the CBB in accordance with Basel II capital adequacy framework. Since incorporation, the Bank had complied with all the prescribed capital requirements.

The Bank's capital adequacy ratio is well above the minimum capital requirement of 12% required by the CBB. The Bank's capital adequacy ratio as at 31 December 2009 was 35.37% compared with 30.29% as at 31 December 2008. The Bank ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits.

The prime objective of the Bank's capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders' value. To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk. The Bank intends to adopt more sophisticated methods of capital allocation after building up the required internal systems and models.

## 3 GROUP STRUCTURE

The Group's consolidated financial statements comprises the financial statements of the Bank and its subsidiaries (together the "Group") prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organization for Islamic Financial Institutions ('AAOIFI') and International Financial Reporting Standards ('IFRS'). However, under the CBB prudential consolidation and deduction requirements non-financial subsidiaries are not required to be consolidated and different treatments are prescribed for regulatory capital computation purposes.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

Following is the structure of the Group for prudential consolidation purposes:

Entities	Ownership	Treatment for prudential consolidation purposes
Global Energy Financial Services SPC	100%	Full consolidation
Diyafa Holdings W.L.L.	90%	Risk weighted

All the above entities are incorporated in the Kingdom of Bahrain and there are no restrictions on the transfer of funds or regulatory capital within the Group.

### 4 RISK MANAGEMENT FRAMEWORK

The Bank perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice. The Board has established Audit and Risk Management Committee which is responsible for developing and monitoring risk management policies and also responsible for the review of internal audit function of the Bank. Effective from February 2010, the Board has established a separate Risk Management Committee which will be responsible for risk management function of the Bank.

The Risk Management Department (RMD) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is also independent of both operations and the Bank's investments units, also assists in the risk management process. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

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

The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports include periodic risk reviews, monthly reports, quarterly risk reports etc.

These reports aim to provide the Bank's senior management with an up-to-date view of the risk profile of the Bank. Moreover, external consultants are also engaged to enhance and improve the risk management standard procedures.

### 4.1 Risks In Pillar I

Basel II Pillar I prescribed three specific risks which are:

#### 4.1.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from its bank balances, placements with financial and other institutions and other receivables from project companies.

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from its own short term liquidity related to placements with financial and other institutions, and in respect of investment related funding made (in the form short-term liquidity facility) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

The Bank has a strong internal process for assessing credit risk. This process takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business, the adequacy and quality of the cash flow available for repayment etc. The availability of collateral security by way of physical assets or guarantees to mitigate the credit risk is also taken into consideration.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

The Bank's internal rating system for exposures to banks and financial institutions is based on a 6-point scale (ranging from A (Strong) to F (unrated)) which takes into account the financial strength as well as qualitative aspects of the obligor. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

### 4.1.2 Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, equity prices, profit rates and credit spreads will reduce the Bank's income or the value of its portfolios. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its FX open positions, maximum loss limits, currency mismatch limits and maturity limits.

The different types of risks with exposures, objectives, policies and processes to manage the risk have been detailed hereunder:

#### 4.1.2.1 Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's major exposures are in GCC currencies, which are primarily pegged to the US Dollars.

The Bank does not engage in any foreign exchange trading operations. The open position limits also take into account structural positions arising out of currency mismatch in assets and liabilities. Risk Management Department periodically performs sensitivity analysis on the open positions to assess the risk of loss from exchange rate movements to ensure that the risk is well under control.

#### 4.1.2.2 Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Bank's trading activities. The Bank manages and monitors the positions using sensitivity analysis.

#### 4.1.2.3 Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank's profit rate sensitive instruments are mainly placements with financial/other institutions and financing from a Bank. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands.

### 4.1.3 Operational Risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences.

Though operational risk cannot be entirely eliminated, however the Bank aims to minimise the risk by strengthening its internal control environment, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank. The material operational risks of the Bank are:

- Inappropriate design of processes for the appraisal of credit and investment projects;
- Shortcomings in documentation and processes for monitoring and control of credit and investment exposures;
- Absence of an efficient process to capture internal losses and near misses;
- Inadequacies in the process for execution of projects including selection of consultants and contractors as well as monitoring time and cost overruns;
- Legal risks arising from product documentation and faulty execution of transactions;
- Loss from staff negligence or fraudulent transactions perpetrated by employees or customers; and
- Delay in updating records and misreporting

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, appropriate controls to safeguard assets, monitoring of various risk limits, periodic accounts reconciliations, financial management and reporting, including internal audit and compliance functions. In addition to these controls the Bank has developed a Business Continuity Plan based on risk review of the Bank's activities and insurance is also in place to complement the associated controls.

Moreover, the Bank has established a risk control and self assessment process necessary for identifying and measuring its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks. The Bank is in the process of automation of risk and control self assessment process which is expected to be completed during second quarter of 2010.

### 4.2 Risks In Pillar II

Pillar II covers key principles of supervisory review and evaluation process which intends not only to ensure that the Bank has adequate capital to support all the associated risks, but also requires Bank to develop an Internal Capital Adequacy Assessment Plan (ICAAP) and setting internal capital targets that commensurate with the Bank's risk profile and control environment. ICAAP requires assurance that the Bank has adequate capital to support its risks beyond the core minimum requirements which must not be limited to credit, market and operational risk charges.

#### 4.2.1 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash and another financial asset. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

As an investment bank, the Bank's operating model has insignificant reliance on short-term liabilities to fund its medium and long-term assets. This ensures against a sudden and unanticipated liquidity crisis.

The Bank as a matter of policy regularly reviews and monitors policy limits for its key liquidity ratios, future contractual cash flows and any mismatches between the cash flows of assets and liabilities, diversification of funding resources and available bank lines, cross currency cash flows requirements and strategy, availability of sufficient liquid assets in case of any unforeseeable event, monitoring of receivables and late payments etc. These all factors are strictly monitored by Risk Management Department and being further reviewed and discussed regularly by the Assets and Liability Committee (ALCO) of the Bank.

For maturity profile of assets and liabilities and key measures used for management of liquidity risk, refer note 30 (b) of the consolidated financial statements.

#### 4.2.2 Concentration Risk

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

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

For sectoral classification of assets and liabilities, refer note 26 of the consolidated financial statements.

#### 4.2.3 Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not enter into any trading positions in foreign exchange contracts and also does not engage in proprietary trading of foreign exchange or profit rate derivatives. For other credit markets transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks by counterparties. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

#### 4.2.4 Profit Rate Risk In Banking Book

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

Currently Bank's assets and liabilities are benchmarked to floating rate indices. The Bank has set policy limits for such risk. Quarterly repricing gap analysis is being performed on the portfolio to ensure that the extent of such risk is measured and monitored.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide.

An analysis of the Group's sensitivity to an increase or decrease in the effective profit rates is provided in note 30 (c) of the consolidated financial statements.

#### 4.2.5 Equity Risk In Banking Book

The equity risk in the banking book primarily arises from the banks unquoted available-for-sale investments. These investments comprise unquoted equity stake in the projects promoted by the Bank and are carried at cost and tested for impairment on a regular basis. The intent of such investments is a later stage exit along with the investors principally by means of strategic sell outs at the project level. The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A quarterly investment update report is presented to the Board of Directors by the Investment Department.

#### 4.2.6 Displaced Commercial Risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

Currently the Bank is not exposed to any displaced commercial risk.

#### 4.2.7 Regulatory and Shari'a compliance risk

Regulatory and Shari'a compliance risk is the risk arising from non-compliance with the regulatory guidelines issued by the Central Bank Bahrain or the Shari'a principles prescribed by the Bank's Shari'a Supervisory Board (SSB) or other eminent scholars.

The Bank is taking due care to comply with all the regulations. The Bank has adequate internal controls in place which include but not limited to adequate training to staff, engagement of third party consultant wherever required, pre-approval from regulator wherever necessary, independent internal reviews by risk management department, compliance department and internal audit department etc.

The SSB is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

#### 4.2.8 Legal Risk

Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly. The Bank has a dedicated in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. As on the reporting date, the Bank had no material legal contingencies including pending legal actions.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

### 4.2.9 Other Risks

Other risks include reputational, strategic, fiduciary risks etc. which are inherent in all business and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board of Directors has overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board of Directors to identify, measure, monitor and control the risks faced by the Bank.

The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory development and its potential impact on the Bank's business, best corporate governance practices and implementation etc.

### 4.3 Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

In April 2008, the CBB published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II frame work.

## 5 CAPITAL MANAGEMENT AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PLAN (ICAAP)

### 5.1 Capital Management

The Bank's policy is to maintain a strong capital base and also the minimum capital requirements imposed by the CBB, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

The Bank ensures that the capital adequacy requirements are met and complied with regulatory capital requirements throughout the period.

### 5.2 Internal Capital Adequacy Assessment Plan (icaap)

The Internal Capital Adequacy Assessment Process ("ICAAP") is a requirement under Pillar II of Basel II for capital management. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business. The Bank's ICAAP identifies risks that are material to the Bank's business and the regulatory capital that is required to be set aside for such risks. The Bank is in the process of implementation of ICAAP which is expected to be completed by 2010. In mean while, the Bank derives comfort from high level of consolidated capital adequacy ratio which is at 35.37% as at 31 December 2009. The Bank intends to continue to be conservative and would maintain a reasonable buffer over 12% regulatory Capital requirement set by Central Bank of Bahrain.

The Bank recognizes that earnings are the first line of defense against losses arising from business risks and that capital is one of the tools to address such risks; also important are establishing and implementing documented procedures, defining and monitoring internal limits of the Bank's activities/exposures, strong risk management, compliance and internal control processes as well as adequate provisions for credit, market and operational losses. However since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirements is available to meet risks arising from fluctuations in asset values, business cycles, expansion and future requirements.

- The Bank seeks to achieve the following goals through the implementation of its ICAAP framework:
- Meet the regulatory capital adequacy requirement and maintain a prudent buffer
- Generate sufficient capital to support overall business strategy

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

- Integrate capital allocation decisions with the strategic and financial planning process
- Enhance Board and senior management's ability to understand how much capital flexibility exists to support the overall business strategy
- Enhance the Bank's understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital and align performance to these.

As an internal target ratio, the Bank will seek to maintain its internal capital adequacy computed under ICAAP (after considering all identified material risks, including those not considered under Pillar 1) at a minimum level of 100% of the minimum Basel II Pillar 1 regulatory capital adequacy ratio stipulated by the CBB. Currently, the CBB has fixed a minimum Capital Adequacy Ratio of 12% and a trigger ratio of 12.5% for all locally incorporated banks in Bahrain. The Bank will monitor the ICAAP capital adequacy ratio against an internal trigger ratio which will be higher than the minimum prescribed ratio based on additional risk charges for risks not addressed in Pillar I. If the ICAAP capital adequacy ratio reaches the internal trigger ratio, the Bank will initiate action to reduce its risk or increase capital before the target ratio is breached.

## 6 REGULATORY CAPITAL REQUIREMENTS AND CAPITAL BASE

### 6.1 Capital Adequacy Computations

The prime objective of the Bank's capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders' value.

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio.

During 2009, the Bank was in compliance with the capital limits set by the regulator for the Bank. The Bank's capital adequacy ratio as at 31 December 2009 was:

	Total eligible capital USD'000'
Credit risk weighted assets	265,913
Market risk weighted assets	17,207
Operational risk weighted assets	130,588
<b>Total risk weighted assets</b>	<b>413,708</b>
Eligible capital	146,337
<b>Capital adequacy ratio</b>	<b>35.37%</b>

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

### 6.2 Capital Base

The following table shows the breakdown of the total available capital for the as at 31 December 2009:

	Tier 1 capital USD'000'	Tier 2 capital USD'000'	Total eligible capital USD'000'
Share capital	173,750	-	173,750
Statutory reserves	5,801	-	5,801
Accumulated losses	(18,388)	-	(18,388)
Total Capital	161,163	-	161,163
Deduction:			
Excess amount over maximum permitted large exposure limit	(14,826)	-	(14,826)
<b>Total Eligible Capital</b>	<b>146,337</b>	<b>-</b>	<b>146,337</b>

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, retained earnings, statutory reserves and minority interests less goodwill. Tier 2 capital includes current interim profits and assets revaluation reserves. In accordance with the Central Bank of Bahrain's Basel II capital adequacy framework, any exposure to an individual counterparty which exceeds 15% of the Capital Base of the Bank need to be deducted from the eligible capital of the Bank. The Bank has accordingly deducted USD 14.826 million from its eligible capital, being excess over 15% of the Capital Base invested in project promoted and managed by the Bank. The Bank had obtained approval of the CBB for this large exposure.

### 6.3 Regulatory Capital Requirements For Credit Risk

To assess its capital adequacy requirements in accordance with the capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Credit Risk. According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available. The Bank uses the ratings of Standard & Poor's, Fitch and Moody's ratings for such counterparties. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

Following is the analysis for credit risk:

	Funded exposure USD'000'	Unfunded exposure USD'000'	Gross exposure USD'000'	Risk weighted Assets USD'000'	Capital requirement USD'000'
Cash	3	-	3	-	-
Claims on banks	30,255	-	30,255	6,051	726
Claims on Corporates including Takaful Companies & Category 3 Investment Firms	12,062	-	12,062	12,062	1,447
Investments in Securities and Sukuk	8,024	-	8,024	12,037	1,444
Holding of Real Estate (indirect holding)	52,426	-	52,426	104,852	12,582
Holding of Real Estate (direct holding)	65,866	-	65,866	117,319	14,078
Other Assets and Specialized Financing	13,592	-	13,592	13,592	1,631
	<b>182,228</b>	<b>-</b>	<b>182,228</b>	<b>265,913</b>	<b>31,910</b>

The classification of assets is in accordance with the Capital Adequacy Module of the CBB.

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

The Bank does not finance its assets using unrestricted investment accounts and hence all credit exposures are self-financed exposures.

The Bank's concentration of funded and unfunded exposures is limited to GCC countries.

### 6.4 Regulatory Capital Requirements For Market Risk

To assess its capital adequacy requirements in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Market Risk.

Market risk charge consists of equity position risk and foreign exchange risk charges. Specific market equity risk charge is computed at the rate of 8% on gross equity positions for each country or market. General market equity risk charge is computed based on 8% of the overall net position in each equity market.

Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

The market risk charge and foreign exchange risk charge is multiplied by 12.5 to evaluate market risk weighted assets.

Following is the computation of market risk charge:

	Risk weighted assets			Capital requirement		
	Maximum USD'000'	Minimum USD'000'	Closing USD'000'	Maximum USD'000'	Minimum USD'000'	Closing USD'000'
Foreign Exchange Risk Charge	19,699	14,296	17,206	2,364	1,716	2,065
Market Risk Charge						
Specific	244	169	239	29	20	29
General	244	169	239	29	20	29
	<b>20,187</b>	<b>14,634</b>	<b>17,684</b>	<b>2,422</b>	<b>1,756</b>	<b>2,122</b>

### 6.5 Regulatory Capital Requirements For Operational Risk

The Bank adopts the Basic Indicator Approach to evaluate Operational Risk Charge in accordance with the CBB capital adequacy module for Islamic Banks. According to this approach, Bank's average gross income for three past financial years is multiplied by a fixed coefficient alpha which is 15% set by CBB. The Bank has calculated the operational risk charge based on the audited results for 6 months for 2007, the actual audited results for 2008 and the projected income data for the year 2009 revised and approved by the Board of Directors..

Operational risk weighted assets and operation capital requirement as at 31 December 2009 was:

	Amount USD'000'
Gross income (average of three years)	69,647
Operational Risk Weighted Assets	130,588
<b>Capital Requirement</b>	<b>15,671</b>

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

### 7 QUANTITATIVE DISCLOSURES FOR CREDIT RISK

#### 7.1 Gross Credit Exposures

The gross and average gross credit exposure are as follow:

	Gross credit exposure USD'000'	Average Gross credit exposure USD'000'
<b>On balance sheet items:</b>		
Cash and bank balances	30	122
Placements with financial and other institutions	41,479	87,837
Available-for-sale investments	67,252	35,652
Investment designated for fair value through profit and loss	4,310	5,140
Other assets	1,316	5,190
	<b>114,387</b>	<b>133,941</b>

The average balances are based on month end average balances during the year 2009.

#### 7.2 Industry Concentration

The industry concentration of credit exposures are as follows:

	Financial institutions USD'000'	Real estate and construction USD'000'	Others USD'000'	Total USD'000'
<b>On balance sheet items:</b>				
Cash and bank balances	30	-	-	30
Placements with financial and other institutions	41,479	-	-	41,479
Available-for-sale investments	-	67,252	-	67,252
Investment designated for fair value through profit and loss	-	-	4,310	4,310
Other assets	-	159	1,157	1,316
	<b>41,509</b>	<b>67,411</b>		<b>114,387</b>

#### 7.3 Geographic Concentration

The Bank's concentration exposure as at 31 December 2009 is limited to GCC countries.

#### 7.4 Credit Exposure By Internal Rating

The analysis of credit exposures by internal rating is as follows:

	Rating A to B USD'000'	Rating C to E USD'000'	Rating F (Unrated) USD'000'	Total USD'000'
<b>On balance sheet items:</b>				
Financial institutions	25,230	19	16,260	41,509
Corporates	-	-	72,867	72,867
Others	-	-	11	11
	<b>25,230</b>	<b>19</b>	<b>89,138</b>	<b>114,387</b>

## Risk and Capital Management Disclosures (BASEL II - PILLAR III)

#### 7.5 Credit Exposure by Residual Maturity

The analysis of credit exposures by residual maturity is as follows:

	Upto 3 months USD'000'	Over 3 months to 6 months USD'000'	Over 6 months to 1 year USD'000'	Over 1 year to 3 years USD'000'	Over 3 years USD'000'	Total USD'000'
<b>On balance sheet items:</b>						
Cash and bank balances	30	-	-	-	-	30
Placements with financial institutions	41,479	-	-	-	-	41,479
Available for sale investments		10,000		57,252		67,252
Investment designated for fair value through profit and loss				4,310		4,310
Other assets	1,316	-	-	-	-	1,316
	<b>42,825</b>	<b>10,000</b>	<b>-</b>	<b>61,562</b>	<b>-</b>	<b>114,387</b>

#### 7.6 Restructured/ Renegotiated Exposures

The Bank did not restructure or renegotiate any exposures as at 31 December 2009.

#### 7.7 Exposure On Highly Leveraged Counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

#### 7.8 Related Party Transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties, and all such transactions have been done on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related parties, the Bank follows the guidelines issued by Central Bank of Bahrain. For details on related party transactions and balances, refer note 20 to the consolidated financial statements.

#### 7.9 Exposure in excess of 15% Of Capital Base

Single exposures in excess of 15 % of the Bank's capital base on individual counterparties require prior approval of CBB and are subject to prudential deduction treatment unless considered as exempt. As on date of balance sheet the Bank has a restricted investment account exposure amounting to USD190Million; this restricted investment account is specific in relation to a project promoted by the Bank and was part of the overall investment structure and is exempt as per CBB rules.

Exposure exceeding single exposure limit as of 31 December 2009 to a corporate counterparty was USD39 Million for which Bank has obtained approval from Central Bank of Bahrain. The Bank has deducted USD14.8Million from its eligible capital, being excess over 15% of the Capital Base.

# Risk and Capital Management Disclosures

## (BASEL II - PILLAR III)

### **8 OTHER DISCLOSURES**

#### **8.1 External Communication**

The Bank communicates with its customers and stakeholders through various channels. Information on developments, financial results, new products or any updates of existing products are placed on the Bank's website [www.gbcorponline.com](http://www.gbcorponline.com) and/or published in the media as well. Product details are also disseminated to customers and other interested parties through prospectus, brochures, and/or periodic investment updates.

#### **8.2 Complaint Handling**

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

#### **8.3 Unrestricted Investment accounts**

Currently, the Bank does not offer any unrestricted investment accounts.

#### **8.4 Restricted Investment accounts**

The Bank does not currently offer Restricted Investment Accounts ("RIAs") as normal product offering. The RIA as at the reporting date is specific in relation to a project promoted by the Bank and was part of the overall investment structure. The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. For further details on RIA balances and policies refer to the consolidated financial statements.