



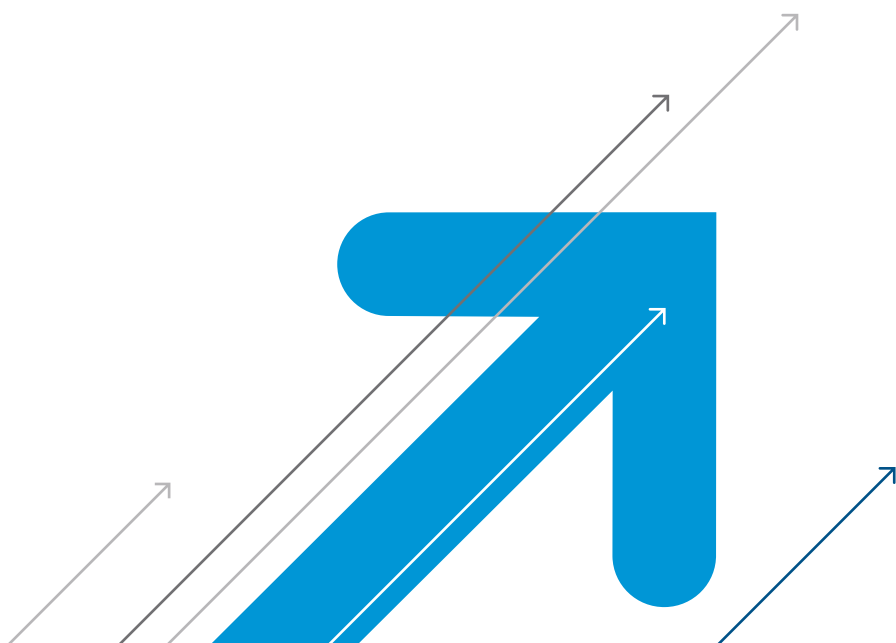
بنك الخليج المتحد
ش.م.ب.
United Gulf Bank B.S.C.

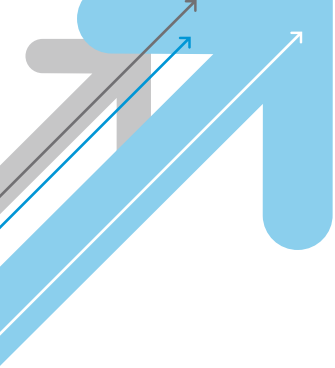
Annual Report 2010 → Financial Statements

Asset Management & Investment Banking

United Gulf Bank B.S.C. Consolidated Financial Statements

31 December 2010





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Independent Auditors' Report to the Shareholders of United Gulf Bank B.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate 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 policies used and the reasonableness of accounting estimates made by the Bank's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

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



22 February 2011
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 US\$ 000	2009 US\$ 000
ASSETS			
Demand and call deposits with banks		27,914	20,328
Time deposits with banks		167,257	176,203
Investments carried at fair value through statement of income	4	126,661	155,315
Non-trading investments	5	385,770	715,321
Loans and receivables	6	57,920	52,595
Other assets	7	46,950	46,203
Investments in associates and joint venture accounted for under the equity method	8	1,026,065	647,852
Investment properties	9	21,178	26,794
Property and equipment		1,074	983
Goodwill	10	56,296	55,168
Assets of disposal group classified as held for sale		-	473,937
TOTAL ASSETS		1,917,085	2,370,699
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		435,624	458,347
Deposits from customers		139,568	227,183
Loans	12	501,432	500,986
Bonds	13	71,187	68,888
Subordinated debt	14	100,000	100,000
Other liabilities	15	68,500	72,002
Liabilities of disposal group classified as held for sale		-	370,968
TOTAL LIABILITIES		1,316,311	1,798,374
EQUITY			
Share capital	16	208,234	207,694
Treasury shares	16	(12,725)	(12,725)
Share premium	16	10,631	9,612
Statutory reserve	16	95,371	91,505
General reserve	16	75,856	71,990
Treasury share reserve	16	14,308	14,308
Fair value reserve	17	(21,374)	(30,966)
Foreign currency translation reserve	16	43,465	36,180
Retained earnings		140,860	119,870
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		554,626	507,468
Non-controlling interests in equity		46,148	64,857
TOTAL EQUITY		600,774	572,325
TOTAL LIABILITIES AND EQUITY		1,917,085	2,370,699



Masaud Hayat
Chairman



Faisal Hamad Al-Ayyar
Director



Mohammad Haroon
Acting Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Income

→ Year ended 31 December 2010

	Note	2010 US\$ 000	2009 US\$ 000
Continuing operations			
Investment income	18	108,502	94,248
Interest income	19	12,699	18,111
		121,201	112,359
Fees and commissions	20	30,493	23,736
Foreign currency translation gains - net		2,372	961
Share of results of associates and joint venture accounted for under the equity method - net	21	9,182	(12,510)
Total income		163,248	124,546
Interest expense	22	(49,262)	(51,301)
Operating income before expenses and provisions		113,986	73,245
Salaries and benefits		(26,916)	(25,519)
General and administrative expenses		(21,637)	(14,987)
Operating income before provisions		65,433	32,739
Impairment loss on investments	5,8	(29,280)	(19,747)
Write-back of provision for doubtful loans, guarantees and other assets - net		149	1,261
Net profit for the year from continuing operations		36,302	14,253
Discontinued operations			
Net profit for the year from discontinued operations	11	6,086	9,590
NET PROFIT		42,388	23,843
Attributable to:			
Shareholders of the parent			
from continuing operations		35,470	11,260
from discontinued operations		3,187	8,834
		38,657	20,094
Non-controlling interests			
from continuing operations		832	2,993
from discontinued operations		2,899	756
		3,731	3,749
		42,388	23,843
Earnings per share			
Basic earnings per share (US cents)	23	4.71	2.46
Diluted earnings per share (US cents)	23	4.70	2.45
Basic earnings per share from continuing operations (US cents)		4.32	1.38
Diluted earnings per share from continuing operations (US cents)		4.31	1.37

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 US\$ 000	2009 US\$ 000
NET PROFIT	42,388	23,843
Other comprehensive income (loss):		
Foreign currency translation reserve	7,914	(37,792)
Fair value reserve	9,993	(33,668)
Share of other comprehensive loss of associates and joint venture accounted for under the equity method	(3,138)	(2,133)
Cash flow hedges	3,096	(79)
Other comprehensive income (loss)	17,865	(73,672)
TOTAL COMPREHENSIVE INCOME (LOSS)	60,253	(49,829)
Attributable to:		
Shareholders of the parent		
from continuing operations	50,352	(56,824)
from discontinued operations	5,182	7,655
	55,534	(49,169)
Non-controlling interests		
from continuing operations	1,820	(1,055)
from discontinued operations	2,899	395
	4,719	(660)
	60,253	(49,829)

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

→ Year ended 31 December 2010

	Note	2010 US\$ 000	2009 US\$ 000
OPERATING ACTIVITIES			
Net profit including profit attributable to non-controlling interests		42,388	23,843
Adjustments for non-cash items:			
Depreciation		591	838
Change in fair value of investment properties	9	-	1,305
(Gain) loss on investments carried at fair value through statement of income	18	(11,945)	2,329
Share of results of associates and joint venture accounted for under the equity method - net	21	(9,182)	12,510
Share of results of disposal group	11	(6,086)	(9,590)
Impairment loss on investments		29,280	19,747
Write-back of provision for doubtful loans, guarantees and other assets - net		(149)	(1,261)
Loss (gain) on sale of investment properties	18	35	(17)
Gain on sale of disposal group	18	(43,850)	(26,748)
Gain on sale of an associate	18	(117)	-
Interest income		(12,699)	(18,111)
Interest expense		49,262	51,301
Dividend income	18	(9,702)	(16,997)
Other non-cash items		1,484	(1,720)
Operating profit before change in operating assets and liabilities		29,310	37,429
Changes in operating assets and liabilities:			
Time deposits with banks with maturities of more than ninety days		13,318	(11,807)
Investments carried at fair value through statement of income		40,599	87,520
Non-trading investments		256,024	121,649
Loans and receivables		(5,176)	(43,564)
Other assets		(821)	25,795
Due to banks and other financial institutions		(22,723)	(39,448)
Deposits from customers		(87,615)	166,144
Other liabilities		2,630	13,789
Net assets of disposal group classified as held for sale		32,904	(26,528)
Interest received		12,774	19,939
Interest paid		(51,599)	(57,799)
Dividends received	18	9,702	16,997
Donations		(300)	(500)
Directors' remuneration		(400)	(420)
Net cash from operating activities		228,627	309,196
INVESTING ACTIVITIES			
Investments in associates and joint venture accounted for under the equity method - net		(318,169)	(45,813)
Proceeds from sale of disposal group	11	120,000	150,000
Proceeds from disposal of investment properties		-	457
Sale (purchase) of investment properties	9	5,581	(5,228)
Property and equipment - net		(682)	58
Acquisition of additional interest in a subsidiary - net		-	(8,595)
Net cash (used in) from investing activities		(193,270)	90,879
FINANCING ACTIVITIES			
Loans raised (repaid) - net		446	(87,084)
Proceeds from issue of shares		1,559	2,903
Dividends paid	16	(10,249)	(150,664)
Net cash used in financing activities		(8,244)	(234,845)
Foreign currency translation adjustments		7,285	(35,922)
Movement in non-controlling interests		(22,440)	(51,105)
NET CHANGE IN CASH AND CASH EQUIVALENTS		11,958	78,203
Cash and cash equivalents at 1 January		183,160	104,957
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	195,118	183,160

The attached notes 1 to 32 form part of these consolidated financial statements.

Year ended 31 December 2010

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2010

1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain and Kuwait Stock Exchanges. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

The principal activities of the Bank and its subsidiaries [the Group] comprise asset management, investment banking and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2010 KIPCO owned 95.83% of the Bank's outstanding shares (31 December 2009: 95.22 %).

These consolidated financial statements were authorised for issue by the Board of Directors on 22 February 2011.

2 BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

The consolidated financial statements have been presented in US Dollars (US\$) being the functional currency of the Group and are rounded to the nearest US\$ thousands except when otherwise indicated.

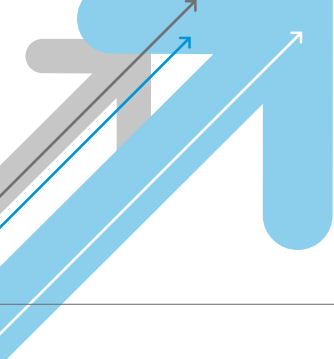
Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations which became effective in 2010:

Standard and interpretation		Effective from
(a)	IFRS 2 Share-based payments – Cash settled share based transactions	1 January 2010
(b)	IFRS 3 Business combinations (Revised)	1 July 2009
(c)	IAS 27 Consolidated and Separate Financial Statements (Amended)	1 July 2009
(d)	IFRIC 17 Distributions of non-cash assets to owners	1 July 2009

IFRS 2 Share-based payments (Revised) - Cash settled share based transactions

The International Accounting Standards Board (IASB) issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share based payment transactions. The adoption of this amendment did not have a material impact on the financial position or performance of the Group as the Group operates an equity settled share based payments scheme.



Notes to the Consolidated Financial Statements

→ At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued))

Changes in accounting policy and disclosures (continued)

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

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The change in accounting policy is required to be applied prospectively.

IFRIC 17 Distributions of non-cash assets to owners

This interpretation explains how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in the consolidated statement of income. The adoption of this interpretation did not have a material impact on the financial position or performance of the Group as the Group had no non-cash asset distribution to shareholders during the year.

Standards and Interpretations issued but not yet effective:

The Group has not elected to early adopt the following standards and amendments which are effective for future periods:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011 but early adoption is permitted. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect the amendment to have any impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group does not expect this amendment to have any impact after initial application.

IFRS 9 Financial Instruments: Classification and measurement

IFRS 9 as issued reflects the first phase of the IASB's work on replacement of IAS 39 and applies to classification of and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in mid 2011. The adoption of the first phase of the IFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

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

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and Interpretations issued but not yet effective: (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is immediately recognised in the statement of comprehensive income. The adoption of this interpretation is not expected to have a significant effect on the financial statements of the Group.

Improvements to IFRS (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- a) IFRS 3 Business Combinations
- b) IFRS 7 Financial Instruments: Disclosure
- c) IAS 1 Presentation of Financial Statements
- d) IAS 27 Consolidated and Separate Financial Statements
- e) IFRIC 13 Customer Loyalty Programs

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- b) Derecognises the carrying amount of any non-controlling interest;
- c) Derecognises the cumulative transaction differences, recorded in equity;
- d) Recognises the fair value of consideration received;
- e) Recognises the fair value of any investment retained;
- f) Recognises any surplus or deficit in the consolidated statement of income; and
- g) Reclassifies the parent's share of a component previously recognised in other comprehensive income to consolidated statement of income.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

The principal subsidiaries of the Bank are as follows:

<i>Name of the subsidiary</i>	Country of incorporation	Effective ownership as at 31 December 2010	31 December 2009	Year of incorporation
<i>Held directly</i>				
KIPCO Asset Management Company [KAMCO]	Kuwait	86%	86%	1998
Tunis International Bank [TIB] *	Tunisia	-	77%	1982
United Gulf Bank Securities Company **	Bahrain	96%	96%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	77%	85%	2008
<i>Held through KAMCO</i>				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	60%	60%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Company W.L.L.	Kuwait	100%	100%	2005
Al Rawabi International Real Estate Company W.L.L.	Kuwait	99%	100%	2009
First Homes Real Estate Company W.L.L.	Kuwait	99%	100%	2009

* Classified as held for sale as at 31 December 2009. Refer to note 11 for details.

** Under liquidation as at 31 December 2010.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint venture accounted for under the equity method

Associated companies

An associated company (or associate) is one in which the Group exercises significant influence (but not control) over its operations, generally accompanying, directly or indirectly, a holding between 20% and 50% of the voting power of the investee and is accounted for under the equity method.

Under the equity method, the investment in the associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The Group recognises, in the consolidated statement of income, its share of the total recognised profit or loss of the associate from the date that influence or ownership effectively commences until the date that it effectively ceases. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in its comprehensive income that have not been recognised in the associate's statement of income. The Group's share of those changes is recognised directly in the statement of comprehensive income.

If the significant influence over an associate is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

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

Joint venture

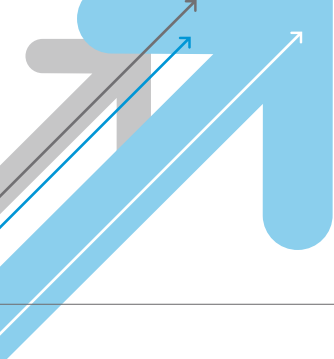
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity with other entity that is subject to joint control. The joint venture is accounted for using the equity method of accounting. Under the equity method, the joint venture is carried in the statement of financial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

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

An assessment of investment in an associate or a joint venture is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist. Whenever the impairment requirements of IAS 36 indicate that investment in an associate or a joint venture may be impaired, the entire carrying amount of investment is tested by comparing its recoverable amount with its carrying value. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is included in the carrying amount of investment in an associate or a joint venture and, therefore, is not separately tested for impairment.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate or a joint venture is included in the carrying amount of the respective associate or joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position. Any excess, at the date of acquisition, of the Group's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.



Notes to the Consolidated Financial Statements

→ At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal group classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from the discontinued operations are reported separately from income and expenses relating to continuing operations down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise two categories 'investments held for trading' and 'investments designated at fair value through statement of income'.

Investments held for trading

All investments held for trading are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Investments designated at fair value through statement of income

These are investments that the Group designated at fair value through statement of income which are managed and their performance evaluated on a fair value basis in accordance with the Group's investment strategy. These investments are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments held for trading are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale
- Loans and receivables

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Held to maturity

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, plus directly attributable transaction costs.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the statement of income.

Investments available-for-sale

Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, plus directly attributable transaction costs.

After initial recognition, investments available-for-sale are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income.

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than;

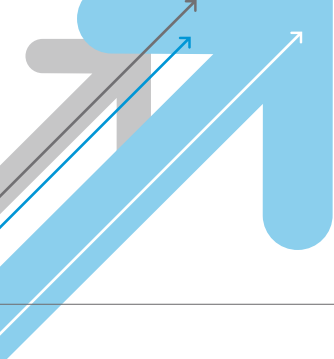
- (a) those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through statement of income;
- (b) those that the Group, upon initial recognition, designates as available for sale; or
- (c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently loans and receivables are carried at amortised cost, less any amount written off, and net of any provision for impairment.

Derivatives and hedge accounting

The Group make use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria. The Group enters into derivative instruments, mainly forward foreign exchange contracts, interest rate and forward currency swaps in the foreign exchange markets.

At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.



Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

Also, at the inception of the hedging relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedge

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income.

Cash flow hedge

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

Derivatives are stated at fair values and carried as assets when their fair value is positive and as liabilities when their fair value is negative. For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 20 years on all property and equipment other than freehold land which is deemed to have an indefinite life. Expenditure for maintenance and repairs is expensed as incurred.

Financial liabilities

Financial liabilities comprises due to banks and other financial institutions, deposits from customers, loans, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Bank which are reacquired by the Bank or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and time deposits (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the date of statement of financial position.

Taxes

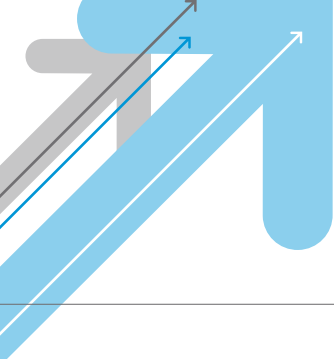
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Derecognition

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

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

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



Notes to the Consolidated Financial Statements

→ At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition (continued)

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

Offsetting

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

Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees’ length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank’s obligations are limited to the amount contributed to the scheme.

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP or the plan). Under the terms of the plan, share options are granted to permanent employees, which are exercisable in a future period. The fair value of the options is recognised as an expense over the vesting period with a corresponding credit to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and reliably measurable.

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Investments available-for-sale

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

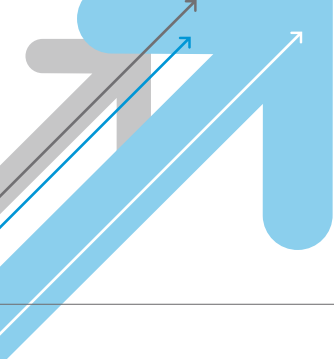
In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair values

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.



Notes to the Consolidated Financial Statements

→ At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

Dividend income is recognised when the Group's right to receive the dividend is established.

Contingent liabilities and contingent assets

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

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

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Acting Chief Executive Officer of the Bank as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant assumptions, accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

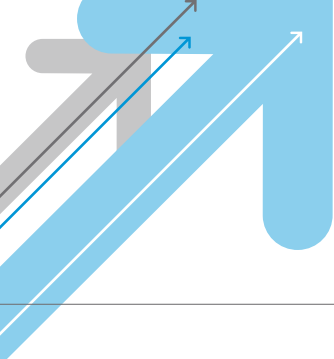
Going concern

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

Classification of investments

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

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.



Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPERATATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Classification of investments (continued)

Securities which are eligible for reclassification in accordance with IAS 39 and the Group has an intention and ability to hold for a foreseeable future are reclassified as non-trading investments. Securities which are not held with the intent of sale in the near term and are eligible per IAS 39 are also reclassified as non-trading investments. An analysis of reclassified assets is disclosed in note 5.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgement.

Impairment of goodwill

The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on loans and receivables

The Group reviews its loans and receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and receivables

In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Fair value of financial instruments (continued)

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same; and
- other valuation methods (note 31).

Reclassification of financial assets

Effective from 1 July 2008, the Group may reclassify, in certain circumstances, non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through statement of income category after initial recognition. An analysis of reclassified assets is disclosed in note 5.

Notes to the Consolidated Financial Statements

At 31 December 2010

3 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
31 December 2010					
Demand and call deposits with banks	-	-	-	27,914	27,914
Time deposits with banks	-	-	-	167,257	167,257
Investments carried at fair value through statement of income	29,196	97,465	-	-	126,661
Non-trading investments	-	-	385,770	-	385,770
Loans and receivables	-	-	-	57,920	57,920
Other assets	-	-	-	43,538	43,538
Total financial assets	29,196	97,465	385,770	296,629	809,060
Due to banks and other financial institutions	-	-	-	435,624	435,624
Deposits from customers	-	-	-	139,568	139,568
Loans	-	-	-	501,432	501,432
Bonds	-	-	-	71,187	71,187
Subordinated debt	-	-	-	100,000	100,000
Other liabilities	-	-	-	40,140	40,140
Total financial liabilities	-	-	-	1,287,951	1,287,951

	Held for trading US\$ 000	Designated at fair value through statement of income US\$ 000	Available-for-sale US\$ 000	Amortised cost / Loans and receivables US\$ 000	Total US\$ 000
31 December 2009					
Demand and call deposits with banks	-	-	-	20,328	20,328
Time deposits with banks	-	-	-	176,203	176,203
Investments carried at fair value through statement of income	24,861	130,454	-	-	155,315
Non-trading investments	-	-	379,665	335,656	715,321
Loans and receivables	-	-	-	52,595	52,595
Other assets	-	-	-	42,527	42,527
Total financial assets	24,861	130,454	379,665	627,309	1,162,289
Due to banks and other financial institutions	-	-	-	458,347	458,347
Deposits from customers	-	-	-	227,183	227,183
Loans	-	-	-	500,986	500,986
Bonds	-	-	-	68,888	68,888
Subordinated debt	-	-	-	100,000	100,000
Other liabilities	-	-	-	57,796	57,796
Total financial liabilities	-	-	-	1,413,200	1,413,200

Notes to the Consolidated Financial Statements

At 31 December 2010

4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2010 US\$ 000	2009 US\$ 000
Investments held for trading		
Quoted equities	29,196	24,861
Investments designated at fair value through statement of income		
Managed funds	97,465	130,454
	126,661	155,315

Managed funds primarily represent private equity funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

5 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2010 US\$ 000	2009 US\$ 000
Quoted		
Equities	45,102	67,475
Unquoted		
Equities	132,558	104,139
Real estate managed funds	18,636	12,339
Other managed funds	179,025	185,140
Debt securities	10,449	346,228
Total unquoted	340,668	647,846
Total non-trading investments	385,770	715,321

In October 2008, the International Accounting Standards Board [IASB] issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from "held for trading" category to the "available-for-sale" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments were effective retrospective from 1 July 2008.

As per the amendments, the Group reclassified certain financial assets from "held for trading" category to "available-for-sale" category. The assets were reclassified with retrospective effect as on 1 July 2008. The carrying value of these financial assets, as at date of reclassification, was US\$ 19,082 thousand.

The carrying values and fair values of the financial assets reclassified are as follows:

	2010 US\$ 000	2009 US\$ 000
Carrying value and fair value as at 31 December	11,768	12,968

Fair value loss that would have been recognised in the consolidated statement of income for the period from the date of reclassification to 31 December 2010 had the financial assets not been reclassified amounts to US\$ 1,709 thousand (31 December 2009: US\$ 3,960 thousand).

Notes to the Consolidated Financial Statements

At 31 December 2010

5 NON-TRADING INVESTMENTS (continued)

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes upto 13% (31 December 2009: 10%) in various geographically and sectorally dispersed companies, amounting to US\$ 116,040 thousand (31 December 2009: US\$ 77,843 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable.

During the year an impairment loss of US\$ 13,499 thousand (31 December 2009: US\$ 10,247 thousand) has been recognised and adjusted against gross amount of non-trading investments of US\$ 34,333 thousand (31 December 2009: US\$ 22,804 thousand).

6 LOANS AND RECEIVABLES

	2010 US\$ 000	2009 US\$ 000
Commercial loans	57,376	55,112
Overdrafts	488	478
Staff loans	2,762	2,163
	60,626	57,753
Less: Provision for impairment	(2,706)	(5,158)
	57,920	52,595

The movements in the provision for impairment are as follows:

	2010 US\$ 000	2009 US\$ 000
At 1 January	5,158	5,195
Written off during the year	(2,394)	-
Charge for the year	3	123
Write-backs	(321)	(234)
Other adjustments	260	74
At 31 December	2,706	5,158

Provision for impairment mainly relates to commercial loans.

	2010 US\$ 000	2009 US\$ 000
Individual impairment	1,697	4,009
Collective impairment	1,009	1,149
	2,706	5,158
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,781	6,407

7 OTHER ASSETS

	2010 US\$ 000	2009 US\$ 000
Due from customers	34,524	25,160
Accounts receivable	4,900	4,911
Prepayments	3,412	3,676
Interest receivable	236	310
Others	3,878	12,146
	46,950	46,203

Due from customers is stated net of provision of US\$ 8,497 thousand (31 December 2009: US\$ 8,162 thousand). The net provision for impairment of other assets charged for the year amounted to US\$ 169 thousand (31 December 2009: net write-back US\$ 1,150 thousand).

Notes to the Consolidated Financial Statements

At 31 December 2010

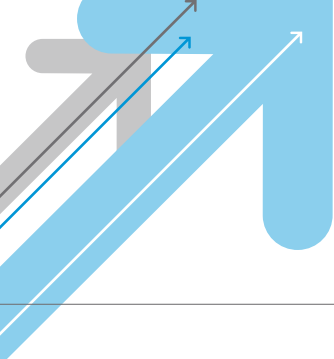
8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD

Investments in associates and joint venture

		Carrying value 2010 US\$ 000	Ownership % 2010	Carrying value 2009 US\$ 000	Ownership % 2009	
Activity						
a)	Al-Dhiyafa Holding Company K.S.C. (Closed)	Hotel and tourism	54,984	32	54,025	31
b)	Al Sharq Financial Brokerage Company	Brokerage and investment business	19,572	20	19,621	20
c)	Burgan Bank S.A.K.	Commercial banking	424,099	17	-	-
d)	Dhow Development Company	Real estate	27	20	26	20
e)	Kuwait Education Fund	Education	-	14	5,612	31
f)	Kuwait Private Equity Opportunities Fund	Private equity fund	14,184	45	15,054	45
g)	Manafae Investment Company	Islamic investment	28,221	30	28,289	31
h)	North Africa Holding Company	Investments	80,440	44	63,021	37
i)	Overland Real Estate Company	Real estate	46,503	44	-	-
j)	Royal Capital Company P.S.C.	Asset management and financial services	35,426	43	35,884	44
k)	SSH Dar International W.L.L.	Architectural consulting services	2,955	29	2,124	29
l)	Syria Gulf Bank	Commercial banking	19,634	31	15,800	24
m)	United Real Estate Company - Syria	Real estate	2,918	40	2,865	40
n)	United Network Company	Telecommunication	13,277	28	12,831	28
o)	United Real Estate Company - Jordan	Real estate	27,037	47	27,251	47
p)	United Industries Company	Industrial and manufacturing	110,525	32	100,671	44
q)	United Health Care Company (Closed)	Health services	-	-	74,552	22
r)	United Real Estate Company	Real estate	145,579	19	172,860	30
s)	United Universal Real Estate Company	Real estate	684	20	625	20
t)	Millennium Private Equity Limited	Asset management	-	50	16,741	50
			1,026,065		647,852	

Summarised financial information of the Group's investments in associates and joint ventures is set out below:

	2010 US\$ 000	2009 US\$ 000
Total assets	18,309,489	3,170,128
Total liabilities	(14,411,447)	(1,376,769)
Net assets	3,898,042	1,793,359
Revenue	1,013,826	253,468
Profit (loss) for the year	68,276	(2)



Notes to the Consolidated Financial Statements

→ At 31 December 2010

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD (continued)

Investments in associates and joint venture (continued)

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2010 and 2009 related to its joint venture and associates.

- a) Al-Dhiyafa Holding Company K.S.C. (Closed) is a company incorporated in the State of Kuwait during 2005. The Bank directly owns 21% (31 December 2009: 21%) of the associate and indirectly owns an additional 11% (31 December 2009: 10%) interest through its subsidiary KAMCO.
- b) Al Sharq Financial Brokerage Company is a closed company incorporated in the State of Kuwait during 2005. The Bank directly owns 15% (31 December 2009: 15%) of the associate and indirectly owns additional 5% (31 December 2009: 5%) interest through its subsidiary KAMCO.
- c) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Group acquired 17% equity interest in Burgan Bank in stages during 2010. The Group has its ability to exercise significant influence on Burgan Bank through representation of 2 directors on the board of directors of Burgan Bank (also refer to note 18).
- e) Kuwait Education Fund (KEF) is a fund incorporated in the State of Kuwait. The Bank directly owns 6% (31 December 2009: 14%) of the associate and indirectly owns an additional 8% (31 December 2009: 17%) interest through its subsidiary KAMCO. During 2010, the Group did not participate in a rights issue by KEF. As a result, the Group's interest in KEF decreased and consequently it lost significant influence and classified as non - trading investment.
- f) Kuwait Private Equity Opportunities Fund is a close ended fund incorporated in the state of Kuwait in 2004. The Bank directly owns 15% (31 December 2009: 15%) and indirectly owns an additional 30% (31 December 2009: 30%) through its subsidiary KAMCO.
- g) The Bank directly owns nil (31 December 2009: nil) of Manafae Investment Company and indirectly owns 30% (31 December 2009: 31%) through its subsidiary KAMCO.
- h) The Bank directly owns 34% (31 December 2009: 27%) of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006, and indirectly owns an additional 10% (31 December 2009: 10%) through its subsidiary KAMCO. During the year, the Group acquired an additional 7% equity interest for a consideration of US\$ 18.9 million (31 December 2009: no acquisition).
- i) During the year the Group acquired a 44% equity interest in Overland Real Estate Company W.L.L. through KAMCO.
- j) The Bank directly owns 18% (31 December 2009: 18%) of Royal Capital, a closed company incorporated in the United Arab Emirates in 2007, and indirectly owns an additional 25% (31 December 2009: 26%) through its subsidiary KAMCO.
- l) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. During the year, the Bank acquired an additional 7% equity interest in SGB for a consideration of US\$ 5.7 million thus increasing its holding at 31 December 2010 to 31% (31 December 2009: 24%).

Notes to the Consolidated Financial Statements

At 31 December 2010

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD (continued)

Investments in associates and joint venture (continued)

- m) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic in 2008. The Bank directly owns 20% (31 December 2009: 20%) of the associate and indirectly owns an additional 20% (31 December 2009: 20%) interest through its subsidiary KAMCO.
- n) The Bank directly owns 20% (31 December 2009: 20%) of United Network Company, a closed company incorporated in the State of Kuwait in 2001, and indirectly owns an additional 8% (31 December 2009: 8%) through its subsidiary KAMCO.
- o) The Bank directly owns 37% (31 December 2009: 37%) of United Real Estate Company - Jordan, a closed company incorporated in Jordan in 2006, and indirectly owns an additional 10% (31 December 2009: 10%) through its subsidiary KAMCO.
- p) The Bank indirectly owns 32% (31 December 2009: 44%) of United Industries Company K.S.C. (closed) (UIC), a company incorporated in the State of Kuwait in 1979 and listed on the Kuwait Stock Exchange, through its subsidiary KAMCO. During 2010, the Group subscribed to the capital increase of UIC amounting to US\$ 38.4 million. Subsequently, the Group sold its 12% equity interest in UIC for an amount of US\$ 38.8 million to its Parent at a gain of US\$ 109 thousand.
- q) The Group sold its entire holding in United Healthcare Company K.S.C. (Closed) at its carrying value to a related party.
- r) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2010, the Bank directly owns 19% (31 December 2009: 30%) of URC. As the Group did not participate in a rights issue made in the current year by URC, the Group's interest in URC has decreased from 30% to 19% resulting in a loss on dilution of investment in URC amounting to US\$ 31.4 million. The Group retained significant influence on URC through representation on the board of directors of URC (also refer to note 18).
- t) During 2009 the Group acquired 50% stake in Millennium Private Equity Limited (MPE) through a share swap of Millennium Finance Corporation Limited (MFC) a jointly controlled company incorporated in the United Arab Emirates. MPE is engaged in managing private equity funds. In 2010, an impairment loss of US\$ 15,781 thousand (31 December 2009: US\$ 9,500 thousand against MFC) has been recognised against MPE.

Investments in associates include quoted associates with a carrying value of US\$ 728,058 thousand (31 December 2009: US\$ 273,531 thousand) having a quoted market price of US\$ 641,572 thousand (31 December 2009: US\$ 95,700 thousand). In accordance with IAS 36, 'Impairment of Assets', the group's recoverable amount of the associates (higher of fair value less cost to sell and value in use) were in excess of their carrying values and accordingly no impairment was recognised.

9 INVESTMENT PROPERTIES

	2010 US\$ 000	2009 US\$ 000
Cost	21,122	28,234
Cumulative fair value adjustments	56	(1,440)
	21,178	26,794
The movements are as follows:		
At 1 January	26,794	23,311
Additions	-	5,228
Disposals	(5,616)	(440)
Change in fair values (note 18)	-	(1,305)
At 31 December	21,178	26,794

Notes to the Consolidated Financial Statements

At 31 December 2010

9 INVESTMENT PROPERTIES (continued)

	2010 US\$ 000	2009 US\$ 000
Investment properties consist of the following:		
Buildings	19,831	19,831
Land	1,347	6,963
	21,178	26,794

Investment properties are stated at fair values, determined based on independent valuations performed by external professional valuers at the year end.

10 GOODWILL

	2010 US\$ 000	2009 US\$ 000
At 1 January	55,168	46,573
Additions	-	10,410
Foreign currency translation adjustments	1,128	(1,815)
At 31 December	56,296	55,168

The goodwill is related to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a cash generating unit (a CGU). The recoverable amount of the CGU is determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation included a perpetuity growth rate of 3% and discount factor of 9.4%. There was no impairment identified in 2010 or 2009 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to market risk premium.

Notes to the Consolidated Financial Statements

At 31 December 2010

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Pursuant to a master transfer agreement [MTA] with Borgan Bank, a related party, the Group had, at 31 December 2008, classified two subsidiaries Gulf Bank Algeria [GBA] and Tunis International Bank [TIB] and an associated company, Bank of Baghdad [BOB] as assets held for sale (disposal group) in accordance with IFRS 5. Subsequently, the transfers of GBA and BOB were completed in March 2009.

On 29 June 2010, the Bank transferred the ownership of TIB to Borgan Bank for a total consideration of US\$ 120,000 thousand to conclude the transfer of disposal group to Borgan Bank as per the MTA.

The results of disposal group are as follows:

	Period 1 January 2010 to 29 June 2010 US\$ 000	Year ended 31 December 2009 US\$ 000
Investment income	1,983	4,066
Interest income	3,412	8,960
Fees and commissions	1,574	3,649
Foreign currency translation gains - net	2,109	3,589
Share of results of associates forming part of discontinued operations		
Gulf Bank Algeria	2,585	9,196
Bank of Baghdad	-	2,201
Total income	11,663	31,661
Interest expense	(959)	(3,727)
Operating income before expenses and provisions	10,704	27,934
Salaries and benefits	(1,812)	(3,303)
General and administrative expenses	(2,331)	(4,266)
Operating income before provisions	6,561	20,365
Provision for doubtful loans, guarantees and other assets - net	(475)	(10,775)
Net profit from discontinued operations	6,086	9,590
Earnings per share from discontinued operations		
Basic earnings per share (US cents)	0.39	1.08
Diluted earnings per share (US cents)	0.39	1.08

Notes to the Consolidated Financial Statements

At 31 December 2010

12 LOANS

31 December 2010	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
Floating rate loans				
<i>Maturing within one year</i>				
Loan due on 5 January 2011	KWD	-	3,559	3,559
Loan due on 7 January 2011	KWD	-	3,559	3,559
Loan due on 31 January 2011	KWD	-	7,118	7,118
Loan due on 31 January 2011	KWD	-	32,924	32,924
Loan due on 2 April 2011	KWD	-	44,492	44,492
Loan due on 31 May 2011	KWD	-	17,797	17,797
Loan due on 17 June 2011	KWD	-	26,696	26,696
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 20 December 2011	KWD	-	28,476	28,476
Loan due on 31 December 2011	KWD	-	3,559	3,559
		115,000	168,180	283,180
<i>Maturing after one year</i>				
Loan due on 2 July 2012	US\$	200,000	-	200,000
Loan due on 31 December 2012	KWD	-	3,559	3,559
Loan due on 1 June 2013	SYP	-	4,014	4,014
Loan due on 31 December 2013	KWD	-	3,559	3,559
Loan due on 31 December 2014	KWD	-	7,120	7,120
		200,000	18,252	218,252
		315,000	186,432	501,432
31 December 2009	Currency*	Parent US\$ 000	Subsidiary US\$ 000	Total US\$ 000
Floating rate loans				
<i>Maturing within one year</i>				
Loan due on 14 January 2010	KWD	-	8,720	8,720
Loan due on 21 January 2010	KWD	-	6,976	6,976
Loan due on 31 May 2010	KWD	-	34,879	34,879
Loan due on 17 June 2010	KWD	-	26,160	26,160
Loan due on 28 July 2010	US\$	-	25,014	25,014
Loan due on 20 December 2010	KWD	-	8,719	8,719
		-	110,468	110,468
<i>Maturing after one year</i>				
Loan due on 2 April 2011	KWD	-	43,600	43,600
Loan due on 30 June 2011	US\$	115,000	-	115,000
Loan due on 20 December 2011	KWD	-	27,904	27,904
Loan due on 2 July 2012	US\$	200,000	-	200,000
Loan due on 1 June 2013	SYP	-	4,014	4,014
		315,000	75,518	390,518
		315,000	185,986	500,986

* KWD represents Kuwaiti Dinar and SYP represents Syrian Pound.

Notes to the Consolidated Financial Statements

At 31 December 2010

13 BONDS

	2010 US\$ 000	2009 US\$ 000
Bonds - issued by a subsidiary	71,187	68,888

In June 2004, the Bank's subsidiary KAMCO issued floating rate bonds of Kuwaiti Dinar (KWD) 10 million (US\$ 35,593 thousand) [rate: Central Bank of Kuwait discount rate plus 2.75% per annum] and fixed rate bonds of KWD 10 million (US\$ 35,593 thousand) [rate: 7.5% per annum] each. These bonds will mature at their principal amounts on 21 June 2011.

14 SUBORDINATED DEBT

On 13 October 2006, the Bank issued floating rate notes amounting to US\$ 100 million for a term of 10 years maturing on 12 October 2016. For the first five years the notes carry interest at the rate of 1.8% per annum above the LIBOR for 3 month US dollar deposits after which the notes will carry interest at the rate of 2.7% per annum above LIBOR for 3 month US dollar deposits. The notes carry a call option exercisable by the Bank after 5 years from the date of issue to repurchase the notes at par value.

15 OTHER LIABILITIES

	2010 US\$ 000	2009 US\$ 000
Due to customers and other payables	18,113	25,313
Accrued expenses	20,807	20,487
Staff related payables	21,798	16,435
Interest payable	5,610	7,948
Dividends payable	2,172	1,819
	68,500	72,002

16 EQUITY

Share capital

The Bank's authorised share capital as of 31 December 2010 comprised 1 billion shares of US\$ 0.25 each (31 December 2009: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2010 comprised 832,935,594 shares of US\$ 0.25 each (31 December 2009: 830,776,277 shares of US\$ 0.25 each). The increase is due to exercise of share options by employees under the Employee Share Option Plan.

Treasury shares and treasury shares reserve

At 31 December 2010, the Bank held 11,056,255 shares (31 December 2009: 11,056,255 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2010 is US\$ 14.7 million (31 December 2009: US\$ 13.7 million).

Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's Employee Share Option Plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's Articles of Association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Notes to the Consolidated Financial Statements

At 31 December 2010

16 EQUITY (continued)

General reserve

The Directors have approved a transfer of 10% (31 December 2009: 10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

Dividend paid

During the year, the Bank paid a final dividend for 2009 of US cents 1.25 per issued share (2009: for 2008, US cents 18.50 per issued share) for a total amount of US\$ 10,249 thousand (2009: US\$ 150,664 thousand).

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain (loss) arising from translating the financial statements of the Bank's foreign subsidiary and associated companies from their functional currencies into United States Dollars.

17 FAIR VALUE RESERVE

	2010 US\$ 000	2009 US\$ 000
Non-trading investments		
Balance at 1 January	(18,018)	15,244
Transferred to consolidated statement of income upon:		
- Sale related to continuing operations (note 18)	(3,239)	(39,989)
- Sale related to the disposal group	(802)	(1,010)
- Impairment (note 5)	13,499	10,247
Net movement in unrealised fair value during the year	(2,962)	(2,510)
Balance at 31 December	(11,522)	(18,018)
Cash flow hedge		
Balance at 1 January	(12,948)	(12,869)
Net movement in unrealised fair value during the year	3,096	(79)
Balance at 31 December	(9,852)	(12,948)
	(21,374)	(30,966)

18 INVESTMENT INCOME

	2010 US\$ 000	2009 US\$ 000
Gain on acquisition of an associate* (note 8)	69,661	-
Loss on dilution of investment in an associate (note 8)	(31,421)	-
Gain (loss) on investments carried at fair value through statement of income	11,945	(2,329)
Dividend income	9,702	16,997
Gain on sale of disposal group (note 11)	43,850	26,748
Gain on sale of an associate	117	-
Gain on sale of available-for-sale investments (note 17)	3,239	39,989
Rental income from investment properties	612	803
(Loss) gain on sale of investment properties	(35)	17
Changes in fair value of investments properties (note 9)	-	(1,305)
Others	832	13,328
	108,502	94,248

Notes to the Consolidated Financial Statements

At 31 December 2010

18 INVESTMENT INCOME (continued)

* The Group obtained significant influence over Burgan Bank in October 2010 through acquisition of its share capital in stages during 2010 (Note 8). As required by International Accounting Standard 28 "Investment in Associates", at the date the Group obtained significant influence, the previously held equity interest is fair valued and the resultant gain of US\$ 69.6 million is recognised in the consolidated statement of income.

Gain on sale of available-for-sale investments includes a gain of US\$ 1.06 million (31 December 2009: gain of US\$ 0.9 million) on the sale of securities having a carrying value of US\$ 0.5 million (31 December 2009: US\$ 44.7 million) that were carried at cost.

19 INTEREST INCOME

	2010 US\$ 000	2009 US\$ 000
Time deposits with banks	1,254	747
Loans and receivables	4,466	2,260
Non-trading investments	6,845	14,819
Demand and call deposits with banks	134	285
	12,699	18,111

20 FEES AND COMMISSIONS

	2010 US\$ 000	2009 US\$ 000
Management fees from fiduciary activities	26,913	13,955
Advisory fees	3,564	9,339
Credit related fees, commissions and other income	16	442
	30,493	23,736

21 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURE ACCOUNTED FOR UNDER THE EQUITY METHOD - NET

	2010 US\$ 000	2009 US\$ 000
Al-Dhiyafa Holding Company K.S.C. (Closed)	(352)	(1,956)
Al Sharq Financial Brokerage Company	345	1,138
Burgan Bank	4,539	-
Kuwait Education Fund	(210)	(595)
Kuwait Private Equity Opportunities Fund	(1,202)	(1,616)
Millennium Private Equity Limited	(1,906)	-
Manafae Investment Company	(642)	77
North Africa Holding Company	(2,651)	439
Royal Capital Company P.S.C.	(764)	296
SSH Dar International W.L.L.	1,284	878
Syria Gulf Bank	(1,129)	(244)
United Network Company	179	(19)
United Real Estate Company - Syria	-	(7)
United Real Estate Company - Jordan	(333)	(123)
United Industries Company	6,372	(11,266)
United Health Care Company (Closed)	-	(192)
United Real Estate Company	5,602	756
United Universal Real Estate Company	50	(76)
	9,182	(12,510)

Notes to the Consolidated Financial Statements

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22 INTEREST EXPENSE

	2010 US\$ 000	2009 US\$ 000
Loans	23,446	25,943
Due to banks and other financial institutions	10,032	15,686
Subordinated debt	1,941	2,466
Deposits from customers	9,326	3,228
Bonds	4,517	3,978
	49,262	51,301

23 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2010 US\$ 000	2009 US\$ 000
Profit attributable to equity shareholders of the Bank	38,657	20,094
Weighted average number of shares outstanding during the year (in thousands)	821,106	816,578
Basic earnings per share (US cents)	4.71	2.46

Diluted

Diluted earnings per share is calculated by dividing the income attributable to the equity shareholders of the Bank, adjusted for the effect of conversion of employees' share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees' share options. The Bank has outstanding share options, issued under the Employee Stock Options Plan, which have a dilutive effect on earnings.

	2010 US\$ 000	2009 US\$ 000
Profit attributable to equity shareholders of the Bank	38,657	20,094
Weighted average number of shares outstanding during the year (in thousands)	821,106	816,578
Effect of dilutive potential ordinary shares:		
Share options (in thousands)	736	2,468
	821,842	819,046
Diluted earnings per share (US cents)	4.70	2.45

24 FUNDS UNDER MANAGEMENT

At 31 December 2010, the Group holds assets amounting to US\$ 8,006 million (31 December 2009: US\$ 7,223 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included in assets on the consolidated statement of financial position.

25 CASH AND CASH EQUIVALENTS

	2010 US\$ 000	2009 US\$ 000
Demand and call deposits with banks	27,914	20,328
Time deposits with original maturities of ninety days or less	167,204	162,832
	195,118	183,160

Notes to the Consolidated Financial Statements

At 31 December 2010

26 SEGMENTAL INFORMATION

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

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.

Commercial banking Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

Segmental information relating to the Group's continuing and discontinued operations for the year ended 31 December 2010 was as follows:

	Asset management and investment banking US\$ 000	Commercial banking* US\$ 000	Eliminations US\$ 000	Total US\$ 000
Statement of income				
Income from external customers	154,066	9,078	-	163,144
Inter-segment income	-	-	-	-
Share of results of associates and joint ventures accounted for using the equity method	5,772	5,995	-	11,767
Total income	159,838	15,073	-	174,911
Operating income before provisions	65,433	6,561	-	71,994
Impairment loss on investments	(29,280)	-	-	(29,280)
Write-back of (provision for) doubtful loans, guarantees and other assets - net	149	(475)	-	(326)
Profit for the year	36,302	6,086	-	42,388
Income attributable to equity shareholders of the parent				38,657
Income attributable to non-controlling interests				3,731
				42,388

* Includes assets held as disposal group.

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26 SEGMENTAL INFORMATION (continued)

	Asset management and investment banking US\$ 000	Commercial banking US\$ 000	Eliminations US\$ 000	Total US\$ 000
Statement of financial position				
Investments in associates and joint venture accounted for under equity method	582,332	443,733	-	1,026,065
Segment assets	1,473,352	443,733	-	1,917,085
Segment liabilities	1,316,311	-	-	1,316,311

Segmental information for the year ended 31 December 2009 was as follows:

	Asset management and investment banking US\$ 000	Commercial banking* US\$ 000	Eliminations US\$ 000	Total US\$ 000
Statement of income				
Income from external customers	125,659	31,661	-	157,320
Inter-segment income	2,779	9,334	(12,113)	-
Share of results of associates and joint ventures accounted for using equity method	(12,266)	11,153	-	(1,113)
Total income (loss)	116,172	52,148	(12,113)	156,207
Operating income (loss) before provisions	35,762	29,455	(12,113)	53,104
Impairment loss on investments	(19,747)	-	-	(19,747)
Write-back of (provision for) loans, guarantees and other assets - net	1,261	(10,775)	-	(9,514)
Profit (loss) for the year	17,276	18,680	(12,113)	23,843
Income attributable to equity shareholders of the parent				20,094
Income attributable to non-controlling interests				3,749
				23,843

Statement of financial position

Investments in associates and joint venture accounted for under equity method	632,052	70,565	-	702,617
Segment assets	1,880,962	533,445	(43,708)	2,370,699
Segment liabilities	1,383,698	370,968	43,708	1,798,374

* Includes assets held as disposal group.

Notes to the Consolidated Financial Statements

At 31 December 2010

26 SEGMENTAL INFORMATION (continued)

Geographical segments

The Group operates in five geographic markets: Domestic region (G.C.C.*), Middle East/Africa, Europe, North America and others. The following tables show the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2010 and 2009:

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
31 December 2010						
Total income	110,057	54,902	4,323	5,548	81	174,911
Non-current assets	1,239,146	108,311	29,528	69,366	-	1,446,351

31 December 2009

Total income (loss)	108,225	42,607	2,990	2,265	120	156,207
Non-current assets	1,195,224	105,761	31,361	64,815	-	1,397,161

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

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27 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

The income and expenses in respect of related parties transacted during the year are included in the consolidated financial statements are as follows:

	2010				2009 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000	Total US\$ 000	
Gain (loss) on investments carried at fair value through statement of income, net	148	2,610	949	3,707	(2,133)
Gain on acquisition of an associate	-	-	69,661	69,661	-
(Loss) gain on sale of non-trading investments	(1)	-	(1,490)	(1,491)	37,093
Gain on sale of disposal group	-	-	43,850	43,850	26,181
Gain on sale of an associate	109	8	-	117	-
Fees and commissions	8,061	7,238	7,910	23,209	13,595
Dividend income	8	227	1,634	1,869	11,912
Interest income	-	8,444	1,157	9,601	16,091
Interest expense	(8,637)	(10,350)	(1,413)	(20,400)	(19,425)
Others	-	477	642	1,119	13,336

Also refer to note 8 relating to certain transactions with related parties involving purchase and sale of investments.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2010				2009 US\$ 000
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000	Total US\$ 000	
Demand and call deposits with banks	-	12,310	111	12,421	1,798
Time deposits with banks	-	7,119	4,889	12,008	62,845
Investments, carried at fair value through statement of income	1,592	-	16,712	18,304	43,425
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	11,967	11,967	13,001
Non-trading investments	-	-	63,148	63,148	386,891
Loans and receivables	-	31,822	2,755	34,577	24,668
Other assets	895	21,075	11,776	33,746	27,402
Due to banks and other financial institutions	-	(227,400)	(25,331)	(252,731)	(337,279)
Deposits from customers	(40,708)	(71,201)	(19,672)	(131,581)	(210,470)
Loans	-	(114,556)	-	(114,556)	(121,705)
Other liabilities	(229)	(1,002)	(2,007)	(3,238)	(5,422)
Off balance sheet items					
Letters of credit	-	500	20,275	20,775	19,655
Letters of guarantee	-	356	18,733	19,089	807
Funds managed or advised by the Group (including funds under management)	-	-	81,546	81,546	81,371

Notes to the Consolidated Financial Statements

At 31 December 2010

27 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel remuneration are as follows:

	2010 US\$ 000	2009 US\$ 000
Short term employee benefits	11,502	11,971
Share based payments	1,176	1,177
Total compensation	12,678	13,148

Related party transactions and year-end balances pertaining to 2009 include amounts relating to the disposal group subsidiary.

28 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers if certain conditions are made under the terms of the contract.

Commitments to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit and investment related commitments:

	2010 US\$ 000	2009 US\$ 000
Credit related		
Letters of credit	20,775	46,986
Letters of guarantee	19,089	18,740
	39,864	65,726
Investment related *	86,349	102,477
	126,213	168,203

Prior year also includes the letters of credit and guarantees of the disposal group subsidiary.

* Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which is normally 1 to 5 years.

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At 31 December 2010

29 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amounts by term to maturity			
			Notional amount total US\$ 000	Within 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000
31 December 2010						
Derivatives held for trading *						
Forward foreign exchange contracts	2,213	(2,085)	334,184	210,326	123,858	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	47	(1,060)	801,344	770,109	31,235	-
Cross currency swaps	-	(4,648)	404,648	-	-	404,648
Derivatives used as cash flow hedges						
Interest rate swap	-	(9,852)	300,000	-	-	300,000

31 December 2009

Derivatives held for trading *						
Forward foreign exchange contracts	388	(226)	179,941	91,433	-	88,508
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	-	(430)	431,380	431,380	-	-
Derivatives used as cash flow hedges						
Interest rate swap	-	(12,948)	300,000	50,000	-	250,000

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures. 2009 also included forward foreign exchange contracts undertaken by the disposal group.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts and cross currency swaps to hedge against changes in the value of investment in subsidiaries and associated companies for an amount of US\$ 621 million (KWD 174.5 million) [2009: US\$ 216 million (KWD 61.9 million)]. Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in the subsidiaries and associates.

Notes to the Consolidated Financial Statements

At 31 December 2010

29 DERIVATIVES (continued)

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December 2010 the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2010		2009	
	Within 1 year US\$ 000	1-5 years US\$ 000	Within 1 year US\$ 000	1-5 years US\$ 000
Net cash outflows (Liabilities)	7,545	9,980	9,477	8,562
Statement of income	-	(9,852)	-	(12,948)

30 RISK MANAGEMENT

30.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/ Investment Committee and (in the case of major subsidiaries) Assets and Liabilities Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

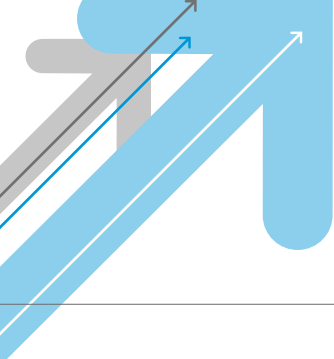
The Board's role is to approve investment strategies of the Bank. However, it has delegated authority for day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.

The Executive Management of the Bank is headed by the Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the ten members of the Bank's management team, each of them is responsible for his or her respective department. Several management committees have been formed which are chaired by the Chief Executive Officer.

Executive Committee

The Executive Committee comprises four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.



Notes to the Consolidated Financial Statements

At 31 December 2010

30 RISK MANAGEMENT (continued)

30.1 Introduction (continued)

Risk management structure (continued)

Investment Committee

The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of five members including Head of Credit & Risk Management who is a non voting member.

Audit Committee

The Audit Committee is appointed by the Board and consists of three members who are Directors, including one non-executive Director. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Compliance Committee

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review of Investment Committee decisions. The Committee comprises eight senior executives of the Bank including the Chief Executive Officer. Additionally, the Head of Internal Audit participates in the Committee meetings in the capacity of an observer.

Asset and Liability Committee

The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Bank's statement of financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's financial position both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions. The Committee comprises seven senior executives of the Bank including the Chief Executive Officer.

Management Committee

The Management Committee acts as the steering committee of the Bank as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Chief Executive Officer and all Department Heads as well as Internal Audit. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Chief Executive Officer.

Insider Trading Committee

The Insider Trading Committee comprises three members constituted from the Board of Directors and the Chief Executive Officer as the alternate member. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain guidelines on insider trading.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected geographies and industry sectors. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

On 15 March 2010, the Ministry of Commerce and Industry of the Kingdom of Bahrain introduced Corporate Governance Code (the Code) applicable to the Group. The Code is based upon nine core principles of corporate governance that adhere to international best practices. The Code includes recommendations to apply the principles, as well as recommendations which support the implementation of good corporate governance. The Code is issued in a "comply or explain" framework, which means companies should comply with the recommendations, or give an explanation in the case of non-compliance.

Notes to the Consolidated Financial Statements

At 31 December 2010

30 RISK MANAGEMENT (continued)

30.1 Introduction (continued)

Risk management structure (continued)

The Central Bank of Bahrain also adopted the Code and incorporated the principles in its rulebook for all locally incorporated banks. The effective date of implementation of the Code is 31 December 2011. Accordingly, during the year significant efforts were made by the Group to further enhance its Corporate Governance practices and new policies and procedures were introduced. The overall Committee structure was also reviewed and in accordance with the recommendations of the Code a new Committee, Nominations and Remuneration Committee, is under formation, whereas the Audit Committee's scope is being widened to include review and enhancement of Corporate Governance practices. Accordingly, the Audit Committee is proposed to be renamed as Audit and Corporate Governance Committee. The recommendations will be formally implemented as soon as Board approvals are in place.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

30.2 Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in the investment activity where there is a possibility that a counterparty may fail to honor its commitment whenever an investment may fail.

Credit risk is mitigated through:

- (i) Establishing an appropriate credit risk environment;
- (ii) Operating under a sound credit and investment approval process;
- (iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
- (iv) Ensuring adequate controls over the credit risk management process.

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) comprises the Chief Executive Officer, Head of Investment Banking and Asset Management, Head of Special Projects and Chief Financial Officer. The Head of Credit and Risk Management acts as an Advisor to the Committee. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

Notes to the Consolidated Financial Statements

At 31 December 2010

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

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

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2010 US\$ 000	2009 US\$ 000
Demand and call deposits with banks	27,914	20,328
Time deposits with banks	167,257	176,203
Non-trading investments	10,449	346,228
Loans and receivables	57,920	52,595
Other assets	43,538	42,527
Letters of credit	20,775	19,655
Letters of guarantee	19,089	1,815
Derivative financial assets	2,260	388
	349,202	659,739

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2010 was US\$ 50 million (31 December 2009: US\$ 337 million) before taking account of collateral or other credit enhancements.

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
Demand and call deposits with banks	22,345	4,026	349	990	204	27,914
Time deposits with banks	132,367	-	30,000	4,890	-	167,257
Non-trading investments	10,449	-	-	-	-	10,449
Loans and receivables	31,934	-	23,268	2,718	-	57,920
Other assets	40,421	39	34	3,041	3	43,538
Letters of credit	20,275	500	-	-	-	20,775
Letters of guarantee	19,089	-	-	-	-	19,089
Derivative financial assets	-	102	2,158	-	-	2,260
31 December 2010	276,880	4,667	55,809	11,639	207	349,202
Demand and call deposits with banks	15,857	1,233	1,856	1,201	181	20,328
Time deposits with banks	108,562	7,323	47,000	13,318	-	176,203
Non-trading investments	346,228	-	-	-	-	346,228
Loans and receivables	21,294	2,663	26,638	2,000	-	52,595
Other assets	39,772	1,024	1,522	197	12	42,527
Letters of credit	19,655	-	-	-	-	19,655
Letters of guarantee	1,815	-	-	-	-	1,815
Derivative financial assets	-	384	4	-	-	388
31 December 2009	553,183	12,627	77,020	16,716	193	659,739

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At 31 December 2010

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

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

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Trading and manufacturing US\$ 000	Banks and other financial institutions US\$ 000	Construction and real estate US\$ 000	Individuals US\$ 000	Others US\$ 000	Total US\$ 000
At 31 December 2010						
Demand and call deposits with banks	-	27,914	-	-	-	27,914
Time deposits with banks	-	167,257	-	-	-	167,257
Non-trading investments	-	10,449	-	-	-	10,449
Loans and receivables	-	-	30,822	25,100	1,998	57,920
Other assets	5,676	7,651	20,410	4,619	5,182	43,538
Letters of credit	-	500	-	-	20,275	20,775
Letters of guarantee	-	356	-	-	18,733	19,089
Derivative financial assets	-	2,260	-	-	-	2,260
	5,676	216,387	51,232	29,719	46,188	349,202

At 31 December 2009

Demand and call deposits with banks	-	20,328	-	-	-	20,328
Time deposits with banks	-	176,203	-	-	-	176,203
Non-trading investments	-	346,228	-	-	-	346,228
Loans and receivables	-	969	19,754	30,294	1,578	52,595
Other assets	2,000	1,538	21	41	38,927	42,527
Letters of credit	-	-	-	-	19,655	19,655
Letters of guarantee	-	1,815	-	-	-	1,815
Derivative financial assets	-	388	-	-	-	388
	2,000	547,469	19,775	30,335	60,160	659,739

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for commercial lending include charges over real estate properties, inventory, trade receivables, trading securities and bank guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance for impairment losses.

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At 31 December 2010

30 RISK MANAGEMENT (continued)

30.2 Credit risk (continued)

Credit risk exposure for each credit rating

	Investment grade US\$ 000	Non-investment grade US\$ 000	Unrated US\$ 000	Total US\$ 000
At 31 December 2010				
Demand and call deposits with banks	27,651	177	86	27,914
Time deposits with banks	162,367	-	4,890	167,257
Non-trading investments	872	9,577	-	10,449
Loans and receivables	-	-	57,920	57,920
Other assets	2,968	1,525	39,045	43,538
Letters of credit	-	-	20,775	20,775
Letters of guarantee	-	-	19,089	19,089
Derivative financial assets	2,260	-	-	2,260
	196,118	11,279	141,805	349,202

At 31 December 2009

Demand and call deposits with banks	18,898	40	1,390	20,328
Time deposits with banks	128,608	40,000	7,595	176,203
Non-trading investments	346,086	-	142	346,228
Loans and receivables	-	-	52,595	52,595
Other assets	-	-	42,527	42,527
Letters of credit	-	-	19,655	19,655
Letters of guarantee	807	-	1,008	1,815
Derivative financial assets	388	-	-	388
	494,787	40,040	124,912	659,739

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAIs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group had no renegotiated loans as of 31 December 2010 or 2009.

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At 31 December 2010

30 RISK MANAGEMENT (continued)

30.3 Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirement for credit risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

	Increase in basis points 2010	Sensitivity of net interest income 2010 US\$ 000	Increase in basis points 2009	Sensitivity of net interest income 2009 US\$ 000
Currency				
Kuwaiti Dinar	+ 25	(1,165)	+ 25	(669)
United States Dollar	+ 25	(442)	+ 25	(396)
Euro	+ 25	(46)	+ 25	(74)
Pound Sterling	+ 25	(1)	+ 25	1
Others	+ 25	(44)	+ 25	2

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2010, including the effect of hedging instruments.

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30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

Currency	Change in currency rate in % 2010	Effect on profit before tax 2010 US\$ 000	Effect on equity 2010 US\$ 000	Change in currency rate in % 2009	Effect on profit before tax 2009 US\$ 000	Effect on equity 2009 US\$ 000
Kuwaiti Dinar	+1	(10,431)	1,903	+1	(4,402)	5,499
	-1	10,431	(1,903)	-1	4,402	(5,499)
Euro	+1	(279)	223	+1	(331)	247
	-1	279	(223)	-1	331	(247)
Jordanian Dinar	+1	-	6	+1	(29)	7
	-1	-	(6)	-1	29	(7)

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At 31 December 2010

30 RISK MANAGEMENT (continued)

30.3 Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

	Middle East/ North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Total US\$ 000
At 31 December 2010				
Investments carried at fair value through statement of income				
Quoted equities	29,137	-	59	29,196
Managed funds	62,406	19,466	15,593	97,465
	91,543	19,466	15,652	126,661
Non-trading investments				
Quoted equities	45,102	-	-	45,102
Unquoted equities	100,956	25,280	6,376	132,612
Managed funds	130,396	4,221	62,990	197,607
	276,454	29,501	69,366	375,321
Total	367,997	48,967	85,018	501,982

	Middle East/ North Africa US\$ 000	Europe US\$ 000	North America US\$ 000	Total US\$ 000
At 31 December 2009				
Investments carried at fair value through statement of income				
Quoted equities	24,795	-	66	24,861
Managed funds	88,670	26,076	15,708	130,454
	113,465	26,076	15,774	155,315
Non trading investments				
Quoted equities	67,475	-	-	67,475
Unquoted equities	69,283	25,698	9,158	104,139
Managed funds	136,186	5,637	55,656	197,479
	272,944	31,335	64,814	369,093
Total	386,409	57,411	80,588	524,408

Any change in equity price index or the net asset values of the above financial instruments will have a direct impact on income or equity. The majority of the equities in the Middle East/North Africa region are quoted in the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

30.4 Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2010						
Financial liabilities						
Due to banks and other financial institutions	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	5 - 10 years US\$ 000	Total US\$ 000
Deposits from customers	193,066	209,582	35,757	-	-	438,405
Loans	128,557	5,938	-	10,937	-	145,432
Bonds	47,337	206,478	33,611	227,224	-	514,650
Subordinated debt	-	73,326	-	-	-	73,326
Other liabilities	-	1,050	1,068	10,602	99,542	112,262
	5,610	25,826	-	8,704	-	40,140
Total non-derivative undiscounted financial liabilities	374,570	522,200	70,436	257,467	99,542	1,324,215
Off statement of financial position items						
Net cash outflows on interest rate swaps		1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	Total US\$ 000	
Gross settled foreign currency derivatives		-	7,545	9,980	17,525	
Letters of credit		1,066,338	69,191	404,647	1,540,176	
Letters of guarantee		-	20,775	-	20,775	
		-	-	19,089	19,089	

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At 31 December 2010

Notes to the Consolidated Financial Statements

At 31 December 2010

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

At 31 December 2009	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	5-10 years US\$ 000	Total US\$ 000
Financial liabilities						
Due to banks and other financial institutions	110,377	350,080	-	-	-	460,457
Deposits from customers	189,166	38,994	-	-	-	228,160
Loans	15,736	62,547	34,494	411,369	-	524,146
Bonds	392	1,898	2,329	71,064	-	75,683
Subordinated debt	564	2,729	3,348	33,223	105,222	145,086
Other liabilities	7,947	24,536	-	25,313	-	57,796
Total non-derivative undiscounted financial liabilities	324,182	480,784	40,171	540,969	105,222	1,491,328

Off statement of financial position items

	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	Total US\$ 000
Net cash outflows on interest rate swaps	-	9,477	8,562	18,039
Gross settled foreign currency derivatives	522,813	-	88,508	611,321
Letters of credit	13,352	6,303	-	19,655
Letters of guarantee	-	-	1,815	1,815

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

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At 31 December 2010

30 RISK MANAGEMENT (continued)

30.4 Liquidity risk (continued)

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset and Liability Committee evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, substantial excess value over cost of its investment in listed subsidiary, ensure that funds are made available at competitive rates.

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

	Less than 12 months US\$ 000	Over 12 months US\$ 000	Total US\$ 000
At 31 December 2010			
Demand and call deposits with banks	27,861	53	27,914
Time deposits with banks	167,257	-	167,257
Investments carried at fair value through statement of income	126,661	-	126,661
Non-trading investments	45,102	340,668	385,770
Loans and receivables	56,922	998	57,920
Other assets	46,930	20	46,950
Investments in associates and joint venture	-	1,026,065	1,026,065
Investment properties	-	21,178	21,178
Property and equipment	-	1,074	1,074
Goodwill	-	56,296	56,296
Total assets	470,733	1,446,352	1,917,085
Due to banks and other financial institutions	200,624	235,000	435,624
Deposits from customers	128,889	10,679	139,568
Loans	283,180	218,252	501,432
Bonds	71,187	-	71,187
Subordinated debt	-	100,000	100,000
Other liabilities	59,796	8,704	68,500
Total liabilities	743,676	572,635	1,316,311
Net	(272,943)	873,717	600,774

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At 31 December 2010

30 RISK MANAGEMENT (Continued)

30.4 Liquidity risk (continued)

	Sub total less than 12 months US\$ 000	Sub total over 12 months US\$ 000	Total US\$ 000
At 31 December 2009			
Demand and call deposits with banks	20,275	53	20,328
Time deposits with banks	176,203	-	176,203
Investments carried at fair value through statement of income	155,315	-	155,315
Non-trading investments	67,475	647,846	715,321
Loans and receivables	49,313	3,282	52,595
Other assets	46,184	19	46,203
Investments in associates and joint venture	-	647,852	647,852
Investment properties	-	26,794	26,794
Property and equipment	-	983	983
Goodwill	-	55,168	55,168
Total assets	514,765	1,381,997	1,896,762
Due to banks and other financial institutions	458,347	-	458,347
Deposits from customers	227,183	-	227,183
Loans	110,468	390,518	500,986
Bonds	-	68,888	68,888
Subordinated debt	-	100,000	100,000
Other liabilities	46,689	25,313	72,002
Total liabilities	842,687	584,719	1,427,406
Net	(327,922)	797,278	469,356

30.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2010:

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Investments carried at fair value through statement of income				
Quoted equities	29,196	-	-	29,196
Quoted managed funds	51,116	-	-	51,116
Unquoted managed funds	-	46,349	-	46,349
	80,312	46,349	-	126,661
Non-trading investments				
Quoted securities				
Equities	44,690	-	412	45,102
Unquoted securities				
Equities	-	28,437	2,309	30,746
Real estate managed funds	-	9,223	9,411	18,634
Other managed funds	-	157,234	7,565	164,799
Debt securities	-	-	10,449	10,449
	44,690	194,894	30,146	269,730
	125,002	241,243	30,146	396,391

Notes to the Consolidated Financial Statements

At 31 December 2010

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Level 1 US\$ 000	Level 2 US\$ 000	Level 3 US\$ 000	Total US\$ 000
Investments carried at fair value through statement of income				
Quoted equities	24,861	-	-	24,861
Quoted managed funds	69,917	-	-	69,917
Unquoted managed funds	-	60,537	-	60,537
	94,778	60,537	-	155,315
Non-trading investments				
Quoted securities				
Equities	67,475	-	-	67,475
Unquoted securities				
Equities	-	37,604	1,040	38,644
Real estate managed funds	-	9,055	-	9,055
Other managed funds	-	146,095	29,981	176,076
Debt securities	-	-	10,572	10,572
	67,475	192,754	41,593	301,822
	162,253	253,291	41,593	457,137

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2010 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

The fair values of other on statement of financial position of financial instruments are not significantly different from the carrying values included in the consolidated financial statements except for non-trading investments carried at cost (note 5) and the following:

The table below sets out the carrying value and the fair value of the financial instruments where fair values are materially different from their carrying values:

	2010		2009	
	Carrying value US\$ 000	Fair value US\$ 000	Carrying value US\$ 000	Fair value US\$ 000
Subordinated debt	100,000	49,000	100,000	49,000

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32 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the Central Bank of Bahrain.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the Central Bank of Bahrain and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

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

	2010 US\$ 000	2009 US\$ 000
Capital base:		
Tier 1 capital	414,502	412,799
Tier 2 capital	77,525	57,874
Total capital base (a)	492,027	470,673
Credit risk weighted exposure	2,186,779	2,716,889
Market risk weighted exposure	275,175	260,213
Operational risk weighted exposure	66,834	276,978
Total risk weighted exposure (b)	2,528,788	3,254,080
Capital adequacy (a/b * 100)	19.46%	14.5%
Minimum requirement	12.0%	12.0%

The above risk asset ratio calculation of 2009 includes the disposal group subsidiary.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserves, treasury share reserve, foreign currency reserve and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.



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