BANK ALKHAIR

Where Vision Inspires Progress

Bank Alkhair Annual Report 2011

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

The Prime Minister of the Kingdom of Bahrain

H.M. King Hamad bin Isa Al Khalifa

The King of Bahrain

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

The Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain

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FINANCIAL HIGHLIGHTS

5-Year Consolidated Performance Summary

(Amounts in US$ thousands)	**2011**	2010	2009	2008	2007
Loss for the year from continuing operations before taxation and impairments	**(15,538)**	(173,692)	12,300	45,756	50,435
Profit/(loss) for the year	**1,169**	(229,496)	2,235	35,011	49,591
Total assets	**483,032**	727,948	1,033,619	978,770	488,419
Placements with financial institutions & financing receivables	**162,315**	301,850	301,043	396,614	113,313
Investment securities	**130,383**	123,002	247,999	328,560	211,393
Total liabilities	**247,866**	525,542	609,967	524,859	140,096
Due to financial & non-financial institutions	**231,661**	393,980	521,423	422,447	98,908
Total equity attributable to the shareholders of the parent	**203,483**	152,528	379,709	329,640	314,433
Total equity	**235,166**	202,406	423,652	453,911	348,323
Return on average assets (percent)	**0.2%**	-26.1%	0.2%	4.8%	12.7%
Return on average shareholders equity (percent)	**0.7%**	-86.2%	0.6%	10.9%	17.4%
Cost:income ratio (percent)	**159.6%**	n/a	81.5%	41.3%	57.9%
Financial leverage (percent)	**113.8%**	291.9%	150.5%	90.9%	22.4%
Capital adequacy ratio (percent)	**21.6%**	13.6%	23.1%	30.8%	44.7%

Note: Figures of previous years have been reclassified for comparative purposes.

BOARD OF DIRECTORS

Yousef A. Al-Shelash
Chairman
Non-executive director

Hethloul Saleh Al-Hethloul
Non-executive director

Ayman Ismail Abudawood
Independent non-executive director

Abdullatif Abdullah Al-Shalash
Non-executive director

Bader Abdulaziz Kanoo
Independent non-executive director

Ayman Abdullah Boodai
Independent non-executive director

Dr. Abdulaziz Naif Al Orayer
Independent non-executive director

Adel Al-Saqabi
Independent non-executive director

Dr. Ahmed Bin Saleh Al-Dehailan
Independent non-executive director

SHARI'AH SUPERVISORY BOARD

Dr. Khalid Mathkoor Al-Mathkoor
Chairman

Dr. Aagil Jasim Al-Nashmy
Deputy Chairman

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah
Chairman, Executive Committee

Dr. Ali Muhyealdin Al-Quradaghi

Dr. Mohammad Daud Baker

Sh. Nizam Mohammad Saleh Yaqouby

We are pleased to present the Annual Report of Bank Alkhair B.S.C. (c) for the year ended 31 December 2011, which was the Bank's seventh full year of operation. Bank Alkhair's primary focus in 2011 was to return to profit, and during the year we continued to focus on restructuring the Bank, improving our financial position and strengthening our operating capabilities.

"BANK ALKHAIR TOOK ACTIVE STEPS TO ENSURE THAT IT IS IN FULL COMPLIANCE WITH THE CENTRAL BANK OF BAHRAIN'S NEW CORPORATE GOVERNANCE REQUIREMENTS AND THAT IT CONTINUES TO ADHERE TO THE HIGHEST STANDARDS OF ETHICAL CONDUCT AND TRANSPARENCY THROUGHOUT ITS BUSINESS."

Bank Alkhair reported a net profit of US$1.2 million for the year ended 31 December 2011, compared to a net loss of US$229.5 million for 2010. Total income for 2011 was US$26 million, compared to a loss of US$106.2 million in 2010. Operating expenses for 2011 were US$41.6 million, a 38% decrease from US$67.4 million in 2010, reflecting restructuring measures taken during the year as well as our continued focus on streamlining operations and right-sizing the Bank.

During the year, we successfully closed a number of important transactions. In partnership with Venture Capital Bank in Bahrain, Bank Alkhair successfully acquired a 65% stake in Göknur Foods Import Export Trading and Production Co. (Göknur), marking one of the largest investments in the agro-food sector in Turkey. Established in 1993, Göknur is one of the largest and fastest growing fruit juice and puree producers and the largest fruit juice concentrate exporter in Turkey, with a customer portfolio spanning close to 60 countries globally.

Furthermore, as part of our strategy to exit the US market to focus on our core markets in the GCC/MENA and Southeast Asia regions, we successfully exited a number of our US portfolio investments. This included the sale of a 75% stake in Sun Well Service, Inc. (Sun Well), the largest independent oil well service company operating in the Williston Basin in the North Central United States; and the sale of an 80% stake in Victron, Inc. (Victron), a specialty provider of high-mix, complex electronics manufacturing services located in California. The exits of our investments in Sun Well and Victron generated net gains of US$2.6 and US$11.9 million respectively.

We also significantly strengthened our subsidiaries in Saudi Arabia, Malaysia and Turkey. Alkhair Capital Saudi Arabia continued to invest in its resources and infrastructure. The company's Asset Management division received Capital Market Authority approval to launch three new funds in 2012, and the Brokerage division has commenced its e-trading services. Our subsidiary in Malaysia, Alkhair International Islamic Bank Berhad, continued to close important transactions in its three main lines of business: Corporate Banking, Investment Banking and Treasury. Alkhair Capital Turkey underwent significant restructuring during the year in order to improve operational efficiencies and facilitate its mission of sourcing and creating investment opportunities for Middle Eastern capital seeking access to Turkey, which is one of the fastest growing economies in the world.

Also during the year, Bank Alkhair took concrete measures to enhance its corporate governance and risk management functions. In recognition of the Board's ultimate responsibility for risk management oversight, the Board established a board level Risk Committee to assist it in strengthening the Bank's risk governance mechanisms and support a more independent risk function, in addition to improving the Board's risk reporting and oversight functions. The Bank also continued to bolster its risk management infrastructure, including the review and implementation of additional risk policies.

Bank Alkhair also took active steps to ensure that it is in full compliance with the Central Bank of Bahrain's new corporate governance requirements and that it continues to adhere to the highest standards of ethical conduct and transparency throughout its business. Measures taken include a thorough review and enhancement of the Bank's corporate governance policies and procedures as well as the development of new policies in accordance with international best practice.

Furthermore, Bank Alkhair underwent an extensive rebranding exercise during the year. This saw us launch our new name and brand, which are a reflection of the Bank's re-aligned operating philosophy and strategy. Bank Alkhair has worked hard over the past two years to safeguard its financial position, and the Board of Directors and major shareholders have continued to actively support the Bank, with the objective of building trust in our institution, in the Board and in our employees. It is our firm conviction that growth will only come when there is trust, and that trust in turn will lead to prosperity or 'alkhair' – and hence our name: Bank Alkhair. Our new logo and brand elements are clean and streamlined, in keeping with both our refocused approach and our streamlined operations.

We would like to take this opportunity to welcome Mr. Adel Al-Saqabi who joined the Board of Directors of Bank Alkhair in 2011. Mr. Al-Saqabi has over 20 years of experience in the financial services sector and serves on the Board of several prominent Kuwaiti companies. We would also like to thank Mr. Waleed Al-Sharhan who resigned from the Board in 2011 for his valuable contribution to the Board and the Bank.

In closing, we would like to express our gratitude, as always, to all of our stakeholders for their continuous trust and confidence in the Bank. We are also tremendously grateful to the Central Bank of Bahrain for its continued guidance and support. We are confident that the prudent measures taken during the year leave Bank Alkhair well-positioned to capitalise on growth opportunities and to continue to achieve profitability in 2012.

Yousef A. Al-Shelash
Chairman of the Board

Founded in 2004 and headquartered in Bahrain, Bank Alkhair is an Islamic wholesale bank, with an international presence in Saudi Arabia, Malaysia and Turkey. Bank Alkhair seeks to deliver exceptional value to clients and shareholders through a focus on innovation, professionalism and integrity – the shared values that drive the Bank's endeavour to be a leading global provider of Shari'ah-compliant financial services.

In 2011, Bank Alkhair ("the Bank") returned to profitability despite a challenging year characterised by volatility and turmoil in the global financial markets. For the twelve months ended 31 December 2011, the Bank recorded a net profit of US$1.2 million, compared to a net loss of US$229.5 million in 2010.

SUMMARY OF FINANCIAL PERFORMANCE

(US$ millions)	Year ended 31 December		
	2011	2010	2009
Investment banking income/(loss)	**16.1**	(112.6)	74.1
Other income	**3.1**	5.1	5.3
Net finance income/(expense)	**0.5**	(5.5)	(9.3)
Net income from non-banking activities	**-**	-	21.1
Share of profit/(loss) of associates	**6.4**	6.8	(3.7)
Total income/(loss)	**26.1**	(106.2)	87.5
Operating expenses	**(41.6)**	(67.4)	(75.2)
Total expenses	**(41.6)**	(67.4)	(75.2)
Profit/(loss) for the year from continuing operations before taxation and impairment	**(15.5)**	(173.6)	12.3
Reversal of impairment and provisions/(charge for the year)	**4.0**	(53.9)	(7.9)
Profit/(loss) for the year from continuing operations and before taxation	**(11.5)**	(227.5)	4.4
Profit from assets held for sale	**14.5**	-	1.2
Profit/(loss) for the year before taxation	**3.0**	(227.5)	5.6
Provision for taxation	**(1.8)**	(1.9)	(3.4)
Profit/(loss) for the year	**1.2**	(229.4)	2.2
Cost:income ratio (percent)	**159.6%**	n/a	85.9%

The Bank's return to profitability in 2011 was the result of a combination of strong shareholder support throughout the year and the Bank's continued focus on streamlining operations and right-sizing the Bank. This strategic focus strengthened the Bank's financial position and stabilised its liquidity position.

The loss before impairments and provisions was US$15.5 million in 2011, compared to a loss of US$173.6 million in 2010. The Bank's fair value write-downs and impairments in 2010 (US$166.5 million) were in line with general decreases in valuations across financial markets. The Bank did not realise any material financing losses in 2010, and write-downs were mainly against investments made prior to 2008, when markets prices were generally much higher. Provisions in 2010 included fair value write-downs of US$118.6 million against the Bank's private equity portfolio, and impairment and provisions of US$53.9 million which consisted of: the Bank's investment securities (US$11.8 million); investments in associates (US$21.1 million); provisions against restructuring charges and receivables (US$12.4 million); goodwill (US$2 million); and provisions in respect of unsecured amounts due from non-financial institutions (US$6.6 million).

In line with Bank Alkhair's strategy to exit the US market to focus on the GCC/MENA and Southeast Asia regions, the Bank exited a number of its investments in the US in 2011. Total contribution from the sale of assets of US$14.5 million was mainly due to successful exits from two of the Bank's US investments, Sun Well Service, Inc. (Sun Well), and Victron, Inc. (Victron), which resulted in an overall contribution of US$2.6 million and US$11.9 million respectively.

Investment banking income increased to US$16.1 million in 2011, from a loss of US$112.6 million in 2010. This included an overall net gain on fair value movements of the Bank's investment portfolio totalling a modest US$0.7 million against write-downs recorded in 2010 of US$118.6 million. Overall, the investment portfolio of the Bank improved in 2011, adding value in its underlying investments for its shareholders which has been reflected in their respective carrying values. Given the prolonged turmoil in the global financial markets, management concentrated their efforts on managing and improving the investments within the portfolio, positioning the Bank's investments for sustainable growth or profitable exits for the Bank's shareholders in the future. Despite market uncertainties, investment banking income increased and the Bank successfully closed a number of key transactions. In partnership with Venture Capital Bank, and a consortium of private investors, Bank Alkhair successfully co-arranged and structured a transaction acquiring a stake in Göknur Foods Imp. Exp. Trading and Production Co. (Göknur) Göknur is one of the largest producers of fruit juice concentrate and fruit puree in Turkey.

The Bank made profits from its share of associates' activities of US$6.4 million in 2011, down from profits of US$6.8 million in 2010. This included the share of profits from BFC Group Holdings (formerly known as Condor Holdings Limited) of US$8.3 million, up 39% from US$6.0 million in 2010. The Bank's share of losses from t'azur was US$0.8 million, slightly down from a loss of US$0.9 million in 2010 as the company continued to increase revenues from expanding its business and geographic market share. The Bank's share of losses from Burj Bank (formerly Dawood Islamic Bank Limited) was US$1.2 million for 2011, down from a loss of US$2.5 million in 2010. The Bank's share of profits from Sun Well Service and Victron were US$1.9 million and US$2.2 million respectively in 2010; the Bank exited its investments in both Sun Well and Victron in 2011.

Operating expenses for 2011 decreased by 38%, down US$25.8 million to US$41.6 million in 2011. The decrease was the result of the restructuring measures taken during the year. The restructuring programme significantly reduced operational expenses and infrastructure costs in 2011, and further cost reductions will be evident within the 2012 operating results.

Net expense for financial and non-financial institutions decreased from a loss of US$5.5 million in 2010 to a profit of US$0.5 million in 2011. This was the result of major deleveraging of the Bank's financial position during 2011. The Bank successfully repaid a US$125 million 3-year Syndicated Commodity Murabaha Facility upon its due repayment date January 2011. Further, substantial decreases in borrowing were achieved as the Bank repaid most of its borrowing obligations as and when they became due.

Investment Banking Income/Loss

(US$ millions)	**2011**	2010	2009
Advisory fees	**4.0**	3.8	66.5
Arrangement fees	**1.9**	4.3	7.6
Dividend income	**0.02**	1.1	12.9
Fair value gain/(loss) on investment securities	**0.6**	(118.6)	(9.0)
Fair value loss on investment property	**-**	(11.5)	(9.4)
Gain on sale of investment securities	**6.6**	4.8	5.4
Net income from non banking activities	**-**	-	21.1
Management fees	**2.8**	3.3	3.4
Total investment banking income/(loss)	**16.1**	(112.6)	98.5

Investment banking income increased to US$16.1 million in 2011, from a loss of US$112.6 million in 2010. The increase in advisory fees was mainly attributable to the Göknur transaction, closed in 2011. The net increase in gain on sale of investments was US$1.8 million, from US$4.8 million in 2010 to US$6.6 million in 2011. The net increase is due to the Bank's sale of an investment in a security and the partial sale of the Bank's Turkish equity funds. In 2010, the dividend income of US$1.1 million was mainly attributable to the Bank's share of profits from its investment in a listed equity. The fair value of the Bank's investment in a piece of land in Manama held well during 2011.

Management fees were earned from the Bank's Global Private Equity Fund I and the Strategic Acquisition Fund. Fees totalling US$2.8 million were recognised for 2011, which is slightly down from earlier years.

The fair value movements on investment securities resulted in an overall net income of US$0.6 million, reflecting the slight improvement in market growth in 2011 against the Bank's overall investment portfolio compared to a loss of US$118.6 million taken in 2010. The Bank's net fair value gain of US$0.6 million on its investments was mainly attributable to a fair value gain of US$4.2 consisting of US$2.5 million in the Bank's private equity portfolio and US$1.7 million in the Strategic Acquisition Fund. This was largely offset by an overall fair value loss in Al Tajamouat Mall of US$2.2 million and a net asset value decrease of US$1.4 million from its Global Private Equity Fund I.

Operating Expenses

(US$ millions)	**2011**	2010	2009
Salaries and employment-related benefits	**25.3**	41.2	46.5
Share-based payments	**-**	-	1.4
Staff costs	**25.3**	41.2	47.9
Legal and professional expenses	**2.2**	10.2	7.2
Premises cost	**3.5**	3.2	3.8
Business development expenses	**1.5**	4.3	4.9
Depreciation	**2.1**	2.5	2.1
Other operating expenses	**7.0**	6.0	9.2
Non-staff costs	**16.3**	26.2	27.2
Total expenses	**41.6**	67.4	75.1
Cost:income ratio (percent)	**160%**	n/a	86%
Period end headcount	**134**	156	187

Overall operating expenses were US$41.6 million in 2011, a decrease of US$25.8 million from US$67.4 million in 2010. Staff costs decreased by US$15.9 million (39%), from US$41.2 million in 2010 to US$25.3 million in 2011, mainly due to headcount reductions as the Bank underwent significant restructuring and reduced its overall operating expenses. The full impact of the cost reductions made in the second half of 2011 will be reflected in Bank Alkhair's 2012 operating results. The Bank will continue to review its restructuring programme and realign its resources, deploying them where the Bank expects to generate revenue and where business activity is expected to increase. Non-staff expenses also significantly decreased, falling by US$9.9 million (38%), from US$26.2 million in 2010 to US$16.3 million in 2011.

The overall decrease in total operating costs of 38% was a result of the Bank's continued focus on cost reductions and the implementation of the restructuring programme initiated in 2010. The Bank has now strengthened its liquidity position and reduced its costs in line with its operating activity and general market conditions.

Financial Position Analysis

Selected financial position data (US$ millions)	**2011**	2010	2009
Cash and balances with banks	**11.1**	43.9	135.9
Placements with financial institutions	**66.5**	72.4	188.5
Total cash and cash equivalents	**77.6**	116.3	324.4
Financing receivables	**95.8**	229.4	112.6
Investment securities	**130.4**	123.0	248.0
Investments in associates	**115.0**	104.7	151.3
Investment property	**17.7**	17.7	29.2
Goodwill & intangible assets	**-**	-	2.0
Due to financial institutions & non-financial institutions	**231.7**	394.0	521.4
Subordinated murabaha	**-**	51.2	50.0
Total equity attributable to the shareholders of the Parent	**203.5**	152.5	379.7
Non-controlling interest	**31.7**	34.6	37.3
Non-controlling interest relating to asset held for sale	**-**	15.3	6.6
Total equity	**235.2**	202.4	423.6
Total liabilities and equity	**483.0**	727.9	1,033.6
Return on average shareholders' equity (percent)	**0.7%**	-86.2%	0.6%
Return on average assets (percent)	**0.2%**	-26.1%	0.2%
Liquidity ratio (percent)	**74.8%**	83.2%	109.4%
Leverage ratio (percent)	**113.8%**	291.9%	150.5%

**Please note the liquidity ratio has been calculated over a six month period.*

Bank Alkhair's financial position decreased in 2011, with total assets falling by US$244.9 million, from US$727.9 million as at 31 December 2010 to US$483 million as at 31 December 2011. Total cash and cash equivalents decreased by US$32.8 million, from US$43.9 million in 2010 to US$11.1 million in 2011.

As at 31 December 2011, the Bank had total bank and non-bank borrowings of approximately US$231.7 million down from US$394.0 million (41%) in the form of reverse Murabaha and Wakala deposits. Borrowings in 2010 included a US$125 million 3-year syndicated commodity Murabaha facility provided by regional and international banks, which was successfully repaid by Bank Alkhair upon its due repayment date in January 2011. The repayment was achieved without reliance on refinancing, restructuring or the 'fire sale' of assets. The Bank has now successfully reduced its liabilities and debts.

The subordinated Murabaha facility of US$50 million taken in 2009 was convertible, at the discretion of the holder, into ordinary shares of the Bank by December 2015 and at a mutually agreed price. During the year, the investor exercised this option to convert into ordinary shares of US$1 each.

Investment securities increased by US$7.4 million, from US$123.0 million in 2010 to US$130.4 million in 2011. There were no major write-downs in 2011 compared to 2010, and the overall investment portfolio showed signs of improvement in 2011. The net increase of US$7.4 million (6%) in investment securities during 2011 was mainly due to the participation in a share capital increase of the Bank's investment in Al Tajamoaut Mall (Jordan).

Shareholders' equity attributable to the shareholders of the parent as reported on 31 December 2011 increased by US$50.9 million from US$152.5 million in 2010 to US$203.5 million in 2011. Overall the net profit attributable to Bank Alkhair shareholders in 2011 was US$3.4 million. However, in line with market conditions, the Board of Directors has opted to preserve liquidity and not pay dividends for 2011.

As a result of 2010 losses, the Bank was carrying a deficit within its reserves of US$215 million and therefore conducted a capital reduction by cancellation of shares which took effect in 2011. The capital reduction was subject to regulatory and shareholder approval, both of which were obtained during the year. An extraordinary general meeting of the Bank's shareholders duly approved the capital reduction on 7 April 2011. The Bank made adjustments of the accumulated loss of US$215 million. The loss was attributable first to the available balances in the share premium account of US$141.7 million and then the statutory reserve account of US$15.6 million, totalling US$157.3, and the remaining balance of US$57.7 million by way of cancelling 57.7 million ordinary shares.

As at 31 December 2011, the equity of the Bank consisted of the following:

(US$ thousands)	**As at 31 December 2011**	As at 31 December 2010 (restated)
Share capital	**207,862**	215,578
Share premium	**-**	141,708
Statutory reserve	**337**	15,580
Fair value reserve	**(227)**	(262)
Foreign currency retranslation reserve	**(8,642)**	(6,112)
Retained earnings/(accumulated losses)	**4,153**	(213,964)
Total equity attributable to the shareholders of the parent	**203,483**	152,528
Non-controlling interests	**31,683**	34,605
Non-controlling interests relating to assets held for sale	**-**	15,273
Total equity	**235,166**	202,406

The capital reduction has achieved the following benefits:

- The accumulated losses of US$215 million would have potentially taken many years to recover to enable the Bank to pay dividends from retained earnings; the capital reduction will allow a more orderly return to profitability, which will provide the basis of earlier future dividend payments;
- The capital reduction was implemented evenly across all shareholders and did not affect any single shareholder's proportional ownership in the Bank; and
- The effect of the share cancellation was maintained at par value of the shares of US$1 and provide flexibility for the Bank to invite additional capital as and when necessary.

CAPITAL MANAGEMENT AND ALLOCATION

Bank Alkhair B.S.C. (c) (formerly Unicorn Investment Bank) is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as a Wholesale Bank (Islamic Principles) by the Central Bank of Bahrain (CBB). It has subsidiaries in the Kingdom of Saudi Arabia, Malaysia and Turkey and associated undertakings in the United Arab Emirates, Pakistan and Bahrain.

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

Capital Structure

The following table details the regulatory capital resources for Bank Alkhair as at 31 December 2011, 31 December 2010 and 31 December 2009 for Tier 1 and Tier 2 capital.

Composition of Capital

(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009
Tier 1 capital			
Paid-up share capital	**207.9**	215.6	215.6
Share premium	**-**	141.7	141.7
Reserves	**(4.2)**	(97.5)	15.6
Non-controlling interest	**(0.2)**	34.6	37.3
Less: goodwill	**(37.7)**	(38.1)	(2.0)
Less: unrealised net fair value losses on investment securities	**(0.2)**	(118.3)	(12.4)
Less: 50% of investment in Burj Bank Limited	**(9.4)**	(7.0)	(10.9)
Less: 50% of investment in t'azur	**(4.8)**	(5.0)	(5.4)
Less: 50% of investment in BFC Group Holdings Limited	**-**	-	(44.7)
Less: excess amounts over maximum permitted large exposure limits	**(7.1)**	(20.7)	(14.3)
Less: additional deduction from Tier 1 to absorb deficiency in Tier 2 capital	**(21.3)**	-	(25.2)
Total qualifying Tier 1 capital	**123.0**	105.3	295.3
Tier 2 capital			
Subordinated Murabaha	**-**	50.0	50.0
Fair value gains	**-**	0.1	0.3
Less: regulatory discount (55%) on fair value gains	**-**	-	(0.2)
Less: 50% of investment in Burj Bank Limited	**(9.4)**	(7.0)	(10.9)
Less: 50% of investment in t'azur	**(4.8)**	(5.0)	(5.4)
Less: 50% of investment in BFC Group Holdings	**-**	-	(44.7)
Less: excess amounts over maximum permitted large exposure limits	**(7.1)**	(20.7)	(14.3)
Addition to Tier 2 to absorb Tier 2 capital deficiency	**21.3**	-	25.2
Total qualifying Tier 2 capital	**-**	17.4	-
Total eligible regulatory capital	**123.0**	122.7	295.3

**Please note goodwill mainly relates to BFC Group Holdings Ltd. and is considered only for capital adequacy calculation purposes.*

Capital Management

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

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

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. The Bank does not deal with, finance or hold securities on behalf of Highly Leveraged Institutions (HLIs) as defined by the Basel Committee on Banking Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review – tools which are all designed to exclude HLIs. Bank Alkhair's treasury counterparts are fully licensed and regulated financial institutions, the majority of which are also rated by credit rating agencies. In addition, the Bank has developed an internal rating methodology where all counterparties are rated and assigned an internal rating mapped to grades provided by external rating agencies. The internal credit rating methodology has strengthened the counterparty risk management process by providing a more objective, risk-based and deeper analysis of counterparty financial conditions and performance. Before establishing limits, all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee.

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

The Bank's credit policy defines the approach to be used when determining provisions and this depends on the number of days outstanding and the credit risk rating. Facilities where repayments of principal and or profit charges have been outstanding for more than 90 days are classified as non-performing. All exposures graded as non-performing have provisions provided for. General provisions are assessed and calculated on a portfolio basis if it is determined that a portfolio of facilities is affected by common risk factors that are likely to increase the collective probability of default on those facilities. Specific provisions are calculated on a facility-by-facility basis after incorporating the value of realisable collateral net of any disposal costs.

Credit Risk-Weighted Assets

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

	Risk-weighted equivalents			**Basel II risk-weightings**
(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009	
Claims on sovereigns	**0.9**	-	-	20%-100%
Claims on international organisations	**-**	-	-	n/a
Claims on non-central government public sector entities	**0.4**	-	-	20%
Claims on multilateral development banks	**-**	-	-	n/a
Claims on banks	**47.9**	41.1	98.9	20%-100%
Claims on investment firms	**-**	-	-	50%
Claims on corporates	**133.9**	193.7	206.1	100%
Regulatory retail portfolios	**-**	-	-	n/a
Residential property	**-**	-	-	n/a
Commercial real estate	**38.5**	134.8	204.5	200%
Past due exposures	**-**	-	-	n/a
Investments in equities and funds:				
Investments in listed equities	**24.8**	0.1	11.8	100%
Investments in unlisted equities	**56.9**	125.5	239.5	150%
Investments in unrated funds	**43.0**	53.7	66.1	150%
Real estate holdings	**-**	-	-	100%
Other assets	**23.4**	39.8	26.9	100%
Underwriting assets	**-**	-	-	n/a
Credit risk-weighted assets	**369.7**	588.7	853.8	

Minimum Capital Requirements for Islamic Financing Contracts

	31 December 2011		31 December 2010	
(US$ millions)	**Risk-weighted equivalents**	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**102.6**	12.8	149.1	18.6
Wakala	**17.6**	2.2	94.1	11.8
Mudaraba	**35.5**	4.4	19.6	2.1

Market Risk-Weighted Assets

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

The details of Bank Alkhair's market risk capital charges and the equivalent market risk-weighted assets as at 31 December 2011, 31 December 2010 and 31 December 2009 are:

(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**3.4**	5.4	9.8
Commodities risk	**-**	-	-
Total capital requirement for market risk	**3.4**	5.4	9.8
CBB multiplier	**12.5**	12.5	12.5
Market risk-weighted assets	**42.5**	67.5	122.5

The details of Bank Alkhair maximum and minimum value for each category of the market risk during the year ended 31 December 2011 and 31 December 2010 are:

	31 December 2011		31 December 2010	
(US$ millions)	**Maximum capital charge**	**Minimum capital charge**	Maximum capital charge	Minimum capital charge
Price risk	**-**	**-**	-	-
Equities position risk	**-**	**-**	-	-
Sukuk risk	**-**	**-**	-	-
Foreign exchange risk	**6.7**	**3.4**	9.8	5.4
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**6.7**	**3.4**	9.8	5.4
CBB multiplier	**12.5**	**12.5**	12.5	12.5
Market risk-weighted assets	**83.8**	**42.5**	122.5	67.5

Operational Risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure and or inadequate staffing. Bank Alkhair has a policy in place which outlines the Bank's approach in the management of operational risk, including the appointment of departmental Risk Champions, the mapping of key processes and the establishment of an operational risk database incorporating risk libraries and Key Risk Indicators (KRIs) used for monitoring operational risks through Risk and Control Self Assessments (RCSAs).

To support a robust internal control environment, the Risk Management department is actively involved in oversight of key control processes including exposure and limit monitoring. A report highlighting compliance with internal risk limits and detailing exposures is prepared and circulated to management on a daily basis, as a mechanism for monitoring breaches against set risk limits. In addition, the Risk Management department also independently reviews payment authorisation and control arrangements, nostro account reconciliations, new product proposals, new counterparty limit proposals, new commodity broker proposals and key changes in internal processes. A change management policy outlining the Bank's approach in the management of risks arising from the implementation of changes in processes and systems is also in place.

The Bank has a Crisis Management Taskforce (CMT), composed of senior management, which is responsible for coordinating and reviewing the implementation of business continuity arrangements. In 2011, the CMT reviewed the Bank's business continuity arrangements and decided to shift from a physical recovery site arrangement in favour of an on-line cloud computing solution which is less susceptible to disruptions.

For selected material operational risks where the Bank's capacity to fully mitigate risk is limited, Takaful insurance contracts are used to transfer such risks to third parties. Key risks where Takaful insurance contracts are used include professional indemnity liability, property risks and third party liability.

Operational Risk-Weighted Exposure

For purposes of calculating regulatory capital for operational risk under Basel II, the Bank uses the Basic Indicator Approach where gross income (weighted by an alpha of 15%) is used as a proxy for operational risk capital.

The details of Bank Alkhair's operational risk capital charge, and the equivalent operational risk-weighted exposure, as at 31 December 2011, 31 December 2010 and 31 December 2009 are shown below:

(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009
Total gross operating income	**33.8**	17.8	199.1
3 year average gross income	**83.6**	132.0	162.6
Basic indicator factor	**15%**	15%	15%
Capital charge for operational risk	**12.5**	19.8	24.4
CBB multiplier	**12.5**	12.5	12.5
Total operational risk-weighted exposure	**156.3**	247.5	304.9

Risk-Weighted Assets

Risk-weighted assets decreased by US$334.5 million (37%) in 2011, from US$903.1 million as at 31 December 2010 to US$568.6 million as at 31 December 2011, as detailed below:

(US$ millions)	**31 December 2011**	31 December 2010	31 December 2009
Credit risk-weighted assets	**369.7**	588.7	853.8
Market risk-weighted assets	**42.2**	67.0	122.5
Operational risk-weighted exposure	**156.7**	247.4	304.9
Total risk-weighted assets	**568.6**	903.1	1,281.2

Group Structure

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

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

	Domicile	**Ownership**	**Treatment for regulatory purposes - consolidation basis**	**Category as per PCD module**
Subsidiaries				
UIB Capital Inc.	United States of America	100%	Full consolidation	Financial entity
Alkhair International Islamic Bank Berhad	Malaysia	100%	Full consolidation	Financial entity
Alkhair Capital Menkul Degerler A.S.	Turkey	91.9%	Full consolidation	Financial entity
Alkhair Capital Saudi Arabia	Kingdom of Saudi Arabia	53.4%	Pro-rata consolidation	Financial entity
Associates				
BFC Group Holdings Ltd.	United Arab Emirates	44.88%	Pro-rata consolidation	Financial entity
Burj Bank Limited	Pakistan	36.90%	Full deduction	Financial entity
t'azur B.S.C. (c)	Kingdom of Bahrain	25.86%	Full deduction	Insurance entity

* PCD: Prudential Consolidation and Deduction

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

Capital Adequacy Ratio

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

	31 December 2011		31 December 2010	
(Percent)	**Total capital ratio**	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Bank Alkhair Group	**21.6**	**21.6**	13.6	11.7
Alkhair International Islamic Bank Berhad	**24.3**	**24.3**	28.9	28.9
Alkhair Capital Saudi Arabia	**93.2**	**93.2**	157.8	157.8
Alkhair Capital Menkul Degerler A.S.	**41.0**	**41.0**	57.5	57.5

(Percent)	31 December 2011	31 December 2010	31 December 2009
Tier 1 capital adequacy ratio	**21.6**	11.7	23.1
Total capital adequacy ratio	**21.6**	13.6	23.1

The reduction in risk-weighted assets by US$334.5 million in 2011 resulted in an increase in the Bank's capital adequacy position. The Basel II Tier I capital adequacy ratio increased from 11.7% at 31 December 2010 to 21.6% at 31 December 2011. The Basel II total capital adequacy ratio similarly increased, from 13.6% to 21.6% over the same period.

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

Minimum Capital Requirements

(US$ millions)	31 December 2011	31 December 2010	31 December 2009
Credit risk	**46.2**	73.6	106.7
Market risk	**5.3**	8.4	15.3
Operational risk	**19.5**	30.9	38.1
Total capital requirements	**71.0**	112.9	160.1

Credit Risk Exposure - Gross and Average Exposure

The table below shows the average gross credit risk exposure of the Bank as at 31 December 2011, classified as per the disclosure in the financial statements:

Financial position items (US$ millions)	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Balances with banks	11.1	-	11.1	16.7
Due from financial institutions	66.5	-	66.5	69.2
Financing receivables	95.8	-	95.8	131.6
Investment securities	23.4	-	23.4	17.2
Other assets	35.5	-	35.5	20.0
	232.2	**-**	**232.2**	**254.7**
Guarantees	3.3	-	3.3	3.3
Total credit risk exposure	**235.5**	**-**	**235.5**	**258.0**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2011.

Other assets as of 31 December 2011 include US$5.8 million receivable from sale of the investment securities maintained in an escrow account for 18 months under recourse agreements.

Specific Provisions

	Specific provisions against			
(US$ millions)	Financing receivable	Other assets	Investment securities	Total
At the beginning of the year	6.6	5.7	2.6	14.9
New provision made	-	7.1	-	7.1
Write-offs	-	-	-	-
Recoveries/write-backs	(6.6)	(4.0)	(2.6)	(13.2)
Balance at the ending of the year	-	8.8	-	8.8

The Group did not make any general collective provisions as of 31 December 2011.

Risk Concentration - Maximum Exposure to Credit Risk

Concentration of risks is managed through the establishment of exposure limits for counterparties and geographical regions and by industry sectors. The Bank's Large Exposure Policy details concentration limits per obligor, groups of connected obligors, sector, geography, countries and groups of countries. The maximum credit exposure to any one client or counterparty as of 31 December 2011 was US$39.2 million (31 December 2010: US$60.9 million).

Exposures in excess of the 15% limit for the year ended 31 December 2011 are as follows:

Counterparties	Amount of exposures in US$ thousands	% of exposure to capital
Counterparty # 1	39,215	28.58%
Counterparty # 2	39,091	28.49%
Counterparty # 3	24,204	17.64%
Counterparty # 4	20,907	15.24%

The exposure to Counterparty # 1 is an exempted short-term interbank exposure.

RESTRICTED INVESTMENT ACCOUNTS

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

Total Income from RIA

(US$ thousands)	**31 December 2011**	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Gross Income	**758**	4,931	188	-	-
Wakil Fee	**(215)**	(956)	(56)	-	-

Displaced Commercial Risk

The Bank does not have Profit Sharing Investment Accounts (PSIAs) and is not exposed to displaced commercial risk.

TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING RELATED PARTIES

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

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

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

Compensation of Senior Management Personnel

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

(US$ thousands)	**2011**	2010
Short-term employee benefits	**4,709**	7,110
Post-employment benefits	**264**	595
	4,973	7,705

The significant related party transactions and balances are as follows:

(US$ thousands)	2011 Associates	2011 Significant shareholders/ entities in which directors have interests	2011 Senior management	2011 Other entities	2010 (restated) Associates	2010 (restated) Significant shareholders/ entities in which directors have interests	2010 (restated) Senior management	2010 (restated) Other entities
Assets								
Financing receivables	**6,548**	**-**	**-**	**6,006**	6,543	-	-	6,005
Investment securities	**97,201**	**-**	**-**	**9,557**	83,787	-	-	32,276
Investment in associates	**114,952**	**-**	**-**	**-**	104,745	-	-	-
Other assets	**1,290**	**-**	**706**	**819**	2,252	-	277	1,732
Assets held-for-sale	**2,560**	**-**	**-**	**-**	-	-	-	120,923
Liabilities								
Due to financial and non-financial institutions	**31,321**	**-**	**-**	**2,615**	40,048	-	-	7,018
Subordinated Murabaha	**-**	**-**	**-**	**-**	-	-	-	51,249
Other liabilities	**-**	**825**	**792**	**66**	3,360	1,566	2,390	332
Income/(expenses)								
Investment banking income	**2,716**	**-**	**-**	**243**	(79,141)	-	-	(11,274)
Net finance income/(expense)	**(1,018)**	**-**	**-**	**(282)**	(939)	-	-	(3,164)
Share of profit of associates	**6,444**	**-**	**-**	**-**	6,788	-	-	-
Other income	**-**	**1,469**	**-**	**914**	-	-	-	(1,237)
Reversals of impairments and provisions/(charge)	**4,037**	**-**	**-**	**-**	(29,862)	-	-	(9,356)
Directors' and Shari'ah Board remuneration and expenses	**-**	**(716)**	**-**	**(220)**	-	(712)	-	(421)

All Bank Alkhair products and transactions are governed by two essential principles: that they fully comply with Shari'ah principles; and that they are benchmarked against international financial best practices. The Bank Alkhair Shari'ah Supervisory Board ensures that all investment policies, structures, products and financial services and activities that the Bank is involved in are in conformity with Shari'ah principles, while the Bank's stringent corporate governance standards ensure that the Bank, its directors and its employees follow the highest standards of ethical conduct and adhere to the principles of fairness, transparency, accountability and responsibility in all day-to-day operations.

Major geopolitical and economic developments in 2011 had a marked effect on the global financial sector, resulting in a continued challenging operating environment. The escalation of the EU sovereign debt crisis and the downgrade of the US economy severely impacted investor confidence and led to constricted lending on the part of financial institutions worldwide. In the Middle East, regional political instability created uncertainty, thereby delaying recovery. In this volatile operating environment, Bank Alkhair continued to strengthen its financial position, operations and corporate governance.

During the year, the Bank was restructured to focus on its core business lines and markets, with an emphasis on maintaining rigorous control of the Bank's core operations and risk management policies and procedures. The Bank successfully closed a number of transactions and continued to strengthen its international subsidiaries and associates.

Private Equity

Bank Alkhair's Private Equity division is engaged in transaction origination; investment structuring; placement with third-party investors and co-investors; post-acquisition management; and strategic exits, with an emphasis on enhancing value at each stage.

The Bank's private equity strategy is to make selective investments in privately-held companies with positive profitability and strong growth prospects requiring growth capital or partial exits. The Private Equity division's investment focus is on the oil & gas services, industrial services, building materials, retail, logistics, healthcare and agribusiness sectors in the GCC and MENA regions, including Turkey. In 2011, the Private Equity division successfully closed a transaction in Turkey, partially divested an investment and exited a number of its US investments, despite adverse global economic conditions. Transactions included:

- The acquisition of a 65% stake in Göknur Foods Import Export Trading and Production Co (Göknur) in partnership with Venture Capital Bank and a consortium of private investors in December 2011– Göknur is one of the largest and fastest growing fruit juice and puree producers and the largest fruit juice concentrate exporter in Turkey. The Bank sourced, structured and syndicated the equity component for the acquisition in partnership with another Bahrain based investment bank.

- The exit of the Global Private Equity Fund I's 28% stake in Precision Time in December 2011 – Precision Time is a company based in Utah that operates a chain of shops offering while-you-wait watch repairs and accessories.

- The exit of the Bank's 80% stake in Victron, Inc. (Victron) in August 2011 – Victron is a specialty provider of high mix, complex electronics manufacturing services based in Fremont, California.

- The exit of the Global Private Equity Fund I's 89% stake in Ellington Leather (Ellington) in April 2011– Ellington Leather is a manufacturer of leather goods and other fabric accessories based in Portland, Oregon.

- The exit of the Bank's 75% stake in Sun Well Service, Inc. (Sun Well) in February 2011 – Sun Well is the largest independent oil well service company operating in the Williston Basin in the North Central United States.

- The partial divestment of Turquoise Coast Investment Company in January 2011 – Turquoise Coast is a vacation home real estate development in the Bodrum Peninsula, one of the most high profile coastal tourism and vacation homes destination in Turkey.

Going forward, Bank Alkhair's Private Equity division will continue to both support and strategically exit its existing portfolio. The division will also continue to source and structure new private equity deals in accordance with the Bank's investment criteria and target markets.

Capital Markets

In 2011, the international Sukuk market continued to suffer from low volumes as a result of tighter regional liquidity and its associated negative impact on the global debt markets. In spite of challenging market conditions, the Bank's Capital Markets division was able to leverage its outstanding track record and proven capabilities to win a number of mandates. The Capital Markets team assisted several clients in obtaining bilateral financing on a leveraged basis, including equity financing, collar financing, margin financing and leveraged Sukuk trading. Furthermore, the division actively engaged in secondary Sukuk trading for both performing and distressed Sukuks.

Going forward, the Capital Markets division will continue to offer products based on proprietary and innovative Shari'ah compliant structures to its shareholders and clients. In addition to Sukuk, the division offers a full suite of capital markets products and services, including asset-backed securitisation, syndicated facilities and credit rating advisory services.

Furthermore, the Capital Markets division continues to maintain a proprietary fixed income book through which it is developing its secondary market trading capabilities which will enable the Bank to engage in market making activities. During the year, the Bank bought and sold a considerable amount of Sukuk paper internationally, increasing its investor network while providing liquidity in the secondary market for transactions in which the Bank was a bookrunner.

Asset Management

Bank Alkhair now offers asset management services primarily through its subsidiaries in Saudi Arabia and Turkey. The Asset Managegment division focuses on two main activities: family office services to benefit the Bank's shareholders; and third party business through the launch of Alkhair-branded funds as well as the development of a "one-stop-shop" for Shari'ah compliant investment solutions.

In 2011, Alkhair Capital Saudi Arabia successfully structured and received Capital Market Authority approval to launch three new funds: the Sukuk Plus Fund; the Real Estate Fund, which is in the distribution phase; and the Saudi Equity Fund. In Turkey, Alkhair Portföy continued to successfully manage its two Shari'ah compliant mutual funds: the Istanbul Fund and the Dow Jones Islamic Turkey Index Fund.

Strategic Mergers & Acquisitions

Bank Alkhair's Strategic Mergers & Acquisitions division is engaged in three main areas of business: the acquisition of financial service institutions as direct investments; strategic monitoring of the Bank's subsidiaries and associates, including BFC Group Holdings, t'azur, the Strategic Acquisition Fund and Burj Bank, Pakistan (formerly Dawood Islamic Bank); and greenfield projects in the area of Islamic finance.

***BFC Group Holdings (BFC Group)**:* BFC Group was acquired by Bank Alkhair in January 2009. Founded in 1917, it is one of the leading foreign exchange and remittance houses in the GCC region. The company has recorded consistent growth and profitability over the past several decades and has developed an extensive correspondent network in over 60 countries globally.

In 2011, BFC Group completed an extensive rebranding exercise in Kuwait and the UK following the successful rebrand of the Bahrain entity in 2010. During the year, the company also expanded its global retail network to a total of 58 branches – 26 in Bahrain, 22 in Kuwait and 10 in the UK, with plans to continue to explore new opportunities in 2012.

The company also implemented significant improvements in its IT infrastructure which became unified across the entire BFC Group. The operational and IT infrastructure that was put in place in 2010 enabled BFC Group to handle increased capacity and provide customers with an enhanced customer service offering in 2011.

In the UK, the successful launch of the company's online product, Smart Money, enabled it to reach a key new target audience. This expansion of online services will continue in 2012 with the launch of an FX home delivery service and a new service for business and corporate customers in Bahrain.

2012 will also see the launch of BFC Forex and Financial Services PVT Ltd in India, with a total of seven branches scheduled to open in the first half of 2012. India is a key expansion market for BFC, and the group has also identified other important target markets, including Malaysia where it is actively pursuing an acquisition. BFC Group is also actively seeking to expand into other GCC countries and negotiations are ongoing with potential partners.

EzRemit embarked on an aggressive expansion plan in 2011, signing up 18 new agent partners and 5 new banking agent partners with over 5000 locations in key South Asian markets. Furthermore, EzRemit now has dedicated customer service centers in India and the Philippines, which has aided the increase in remittance volumes and significantly improved the customer service proposition. In 2012, this will be extended to Pakistan and Bangladesh which will improve the service in these growing markets.

t'azur*:* t'azur is a regional Takaful company established in 2007 following two years of intensive research and development led by Bank Alkhair. The company was founded in conjunction with a group of strategic founding investors from across the GCC to capitalise on the largely untapped opportunities within the Takaful sector. t'azur offers both General and Family Takaful products and services and seeks to meet the demands of a vast and fragmented market for Shari'ah compliant insurance and savings solutions, both within the GCC region and internationally.

Following the significant progress made in previous years, 2011 again witnessed excellent growth of more than 40% in gross written premiums. t'azur's Bahrain operations continued to grow its share of the local market in both General and Family Takaful. Growth was particularly strong in motor and medical insurance. Qatar saw premiums grow by a very encouraging 115% with business being written across a number of different lines.

t'azur now has in excess of 30,000 motor policies and medical insurance members and is currently active in three countries – Bahrain, Kuwait and Qatar. It has added several major public and private institutions to its portfolio of clients in these three countries and aims to continue this progress in 2012. The company also continues to actively pursue further expansion into other GCC countries.

Strategic Acquisition Fund (SAF)*:* SAF is a closed investment fund promoted and managed by Bank Alkhair and registered with the CBB. The Fund was launched in 2007 and has reached US$210 million worth of commitments, of which US$187.5 million is paid-up, from a broad array of GCC based investors. SAF was established in response to the lack of specialised investment vehicles targeted at supporting the growth of Shari'ah-compliant financial services institutions. By establishing SAF, the Bank was able to leverage the significant professional banking and M&A expertise it has assembled within its Strategic Mergers & Acquisitions division.

In 2011, SAF exited an investment made in a Shari'ah compliant Kuwait based Asset Manager. SAF will continue to monitor its remaining two main investments to ensure optimum return to its Unit Holders.

Burj Bank*:* Bank Alkhair is a founder and the largest shareholder of Burj Bank, a Shari'ah-compliant retail bank based in Pakistan. In 2011, Bank Alkhair, together with the Islamic Corporation for the Development of the Private Sector (ICD), jointly underwrote Burj Bank's PKR1.6 billion (approximately US$18.5 million) capital increase. In July 2011, Burj Bank successfully launched its new brand resulting in an encouraging increase in deposits, from PKR12 billion at the end of 2010 to PKR20 billion at the end of 2011). The Strategic Mergers & Acquisitions division continued to work closely with Burj Bank to advise on its strategy and ensure that positive growth trends are sustained.

International Subsidiaries

Saudi Arabia*:* In 2011, Alkhair Capital Saudi Arabia (formerly Unicorn Capital Saudi Arabia) continued to invest in its resources and infrastructure. This included the appointment of a new Chief Executive Officer and the recruitment of key management to run its day-to-day operations and see it through its next phase of growth. Alkhair Capital Saudi Arabia also revised its business model to focus on three integrated business lines: Asset Management, Corporate Finance & Investment Banking and Brokerage.

During the year, Alkhair Capital Saudi Arabia's Asset Management division successfully structured and received Capital Market Authority approval to launch three funds: the Sukuk Plus Fund; the Real Estate Fund, which is in the distribution phase; and the Saudi Equity Fund. The division also plans to implement a new online asset management system to make it easier for clients to monitor their investments.

Alkhair Capital Saudi Arabia's Corporate Finance & Investment Banking division commenced operations in 2011. The division offers clients a broad range of corporate advisory services and solutions, with a specific focus on capital planning and fund raising, financial restructuring and mergers & acquisitions. The division aims to be actively involved throughout all stages of each mandate, from initial structuring through to final execution. Despite challenging market conditions and aggressive local competition, the Corporate Finance & Investment Banking division successfully secured three mandates during its first year of operations. These included two sell-side advisory mandates for small and medium enterprises in Saudi Arabia and an advisory and capital raising mandate for Qasr Khozam, a landmark project to recreate the historical center of Jeddah, Saudi Arabia.

The investment banking market in Saudi Arabia is expected to gain momentum over the next few years, and Alkhair Capital Saudi Arabia aims to capitalise on this trend given its capabilities and extensive relationships. In 2012, the division seeks to continue to support its active mandates; to close prospective mandates; and to source and structure new deals.

In Brokerage, Alkhair Capital Saudi Arabia implemented a B2B system integrating its Order Management System (OMS) with ANB bank accounts. The B2B system will simplify the transfer of funds from/to client accounts and enhance the trading experience. Furthermore, the Brokerage division is in the process of customising the OMS to allow trading on Shari'ah approved stocks only. The division also commenced its e-trading services in 2012.

***Malaysia**:* In 2011, Alkhair International Islamic Bank Berhad (Alkhair Malaysia, formerly Unicorn International Islamic Bank Malaysia Berhad) closed a number of transactions and continued to strengthen its operating capabilities. Alkhair Malaysia was the first foreign International Islamic bank to be licensed to conduct a full range of non-Malaysian Ringgit banking activities under the Malaysia International Islamic Financial Centre (MIFC) initiative. The Bank's primary focus is on three core business lines: Corporate Banking, Treasury and Investment Banking to complement the Bank's existing operations in Bahrain.

As at 31st December 2011, Alkhair Malaysia's total assets increased by 22.66%, from MYR490.82 million in 2010 to MYR602.03 million in 2011. This was mainly due to increased financing of customers and securities available-for-sale, which increased by 57%, from MYR222.20 million in 2010 to MYR349.88 million in 2011. Total deposits received increased by 26.16%, from MYR405.97 million in 2010 to MYR508.61 million in 2011.

Total shareholders' equity increased by 7.06% to MYR88.35 million in 2011, compared to MYR82.52 million in 2010
In line with the increase in asset size, income derived from investment of depositors' funds and others increased by 2.08%, from MYR18.79 million in 2010 to MYR19.18 million in 2011. The increase was primarily attributable to profit income from financing of customers (MYR6.84 million) and dividend income and capital gains from securities available-for-sale (MYR1.78 million).

However, with the increase in operating expenses, net profit for the year declined by 24.32%, from MYR3.33 million in 2010 to MYR2.51 million in 2011.

Treasury and Corporate Banking were again the key drivers of Alkhair Malaysia's business. As at 31st December 2011, the Corporate Banking division's financing to customers totalled MYR276 million against MYR181 million and MYR97 million in 2010 and 2009 respectively. The division secured three new local financings in 2011, while maintaining all of its existing clients.

In Treasury, Alkhair Malaysia was the first institution to obtain approval from Bank Negara Malaysia for its Wakala Deposit and Restricted Wakala Deposit products and successfully introduced these to the market. Alkhair Malaysia also signed Malaysia's Standardised Commodity Murabaha Master Agreement and Master Wakala Agreement along with 22 other banks in Malaysia. These agreements are intended to promote uniformity and operating efficiencies within the Islamic banking sector. During the year, the Treasury division successfully launched another US$50 million Restricted Wakala Product in Malaysia; however, only US$23 million was recorded. Alkhair Malaysia also successfully expanded the Wakala deposit product to a broader client base across Malaysia, including government agencies, financial institutions and public listed companies.

***Turkey**:* Alkhair Capital Turkey was established in 2007, following the Bank's acquisition of the Turkish brokerage company and asset management company, Inter Yatirim Menkul Değerler A.Ş. and Inter Portföy Yönetimi A.Ş. respectively. Alkhair Capital Turkey's main lines of business are: Asset Management, Real Estate & Private Equity, Brokerage and Research. As a vast and significantly under-served Islamic finance market with enormous growth potential, Turkey is a key market for the Bank and an important component of the Bank's growing international capabilities.

“IN 2011, THE PRIVATE EQUITY DIVISION SUCCESSFULLY CLOSED A TRANSACTION IN TURKEY, PARTIALLY DIVESTED AN INVESTMENT AND EXITED A NUMBER OF ITS US INVESTMENTS, DESPITE ADVERSE GLOBAL ECONOMIC CONDITIONS.”

The Turkish economy is one of the fastest growing economies in the world and continued to register massive growth in 2011. Turkey’s fiscal outlook also improved significantly in 2011, with the budget deficit to GDP ratio falling to 1.4% from 3.6% in 2010. As a result, the debt stock to GDP eased to below 40%. Turkey’s performance stood out significantly amid the debt-trapped Eurozone. Also worth noting was the reduction in unemployment which fell to a 10-year record low of 8.8%.

Having prioritised its Private Equity business line in 2011, Alkhair Capital Turkey played an important role in the origination, structuring and execution of Bank Alkhair’s acquisition of a majority stake in Göknur Foods Import Export Trading and Production Co (Göknur) a leading fruit juice concentrate producer and exporter in Turkey. This transaction marked one of the largest private equity deals in the Turkish agro-food sector. Alkhair Capital Turkey has a strong private equity pipeline which includes prospective deals in the agro-foods, logistics and healthcare sectors as well as income generating assets in the real estate sector.

In Asset Management, Alkhair Portföy continued to successfully manage two Shari’ah compliant mutual funds. Following remarkable returns over the past two years, the Istanbul Fund continued to beat its benchmark by 2% in 2011. However, as the market followed a downside trend throughout 2011, the Istanbul Fund recorded a 25% loss in US$ terms, compared to the 28% slide in Dow Jones Islamic Turkey Index and 36% in the main ISE Index.

Alkhair Capital Turkey’s Brokerage division participated in all nine Shari’ah compliant IPO’s completed by the Istanbul Stock Exchange.

Corporate Governance Mission

As a Bahrain based bank, Bank Alkhair is subject to the corporate governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law. Bank Alkhair aspires to the highest standards of ethical conduct, which is based on good corporate governance. In accordance with the Bank's commitment to both meeting legal and regulatory requirements and adhering to international best practices, Bank Alkhair has adopted a comprehensive Corporate Governance Framework to maximise operational efficiency and protect shareholders' rights.

The Bank regards the guiding principles of its Corporate Governance Framework to be: Fairness, Transparency, Accountability and Responsibility.

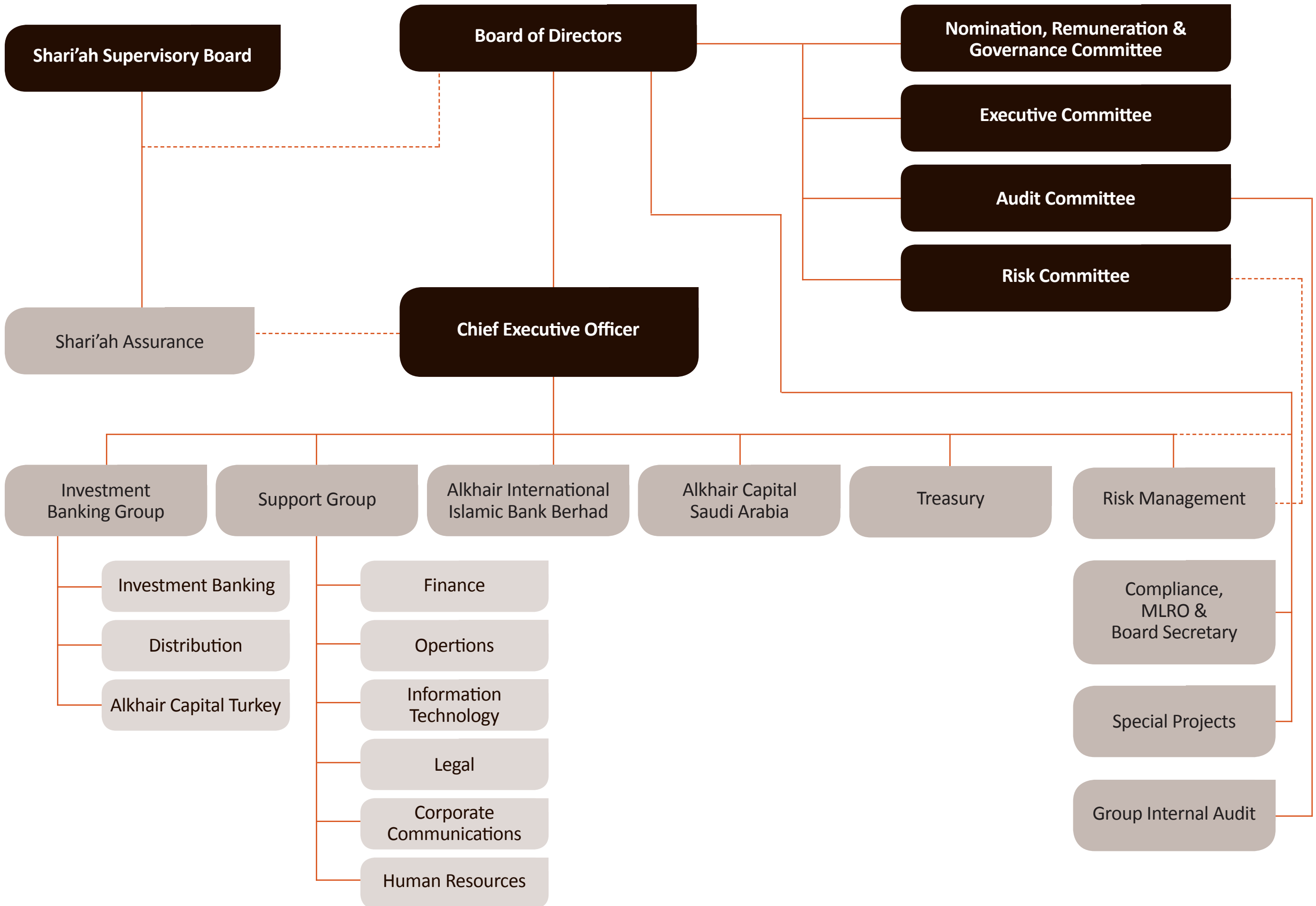
Key Developments in 2011

In 2011, Bank Alkhair developed a revised and more rigid Corporate Governance Framework as part of the Bank's ongoing efforts to enhance and strengthen its control policies and procedures, which were approved throughout 2011 and the first and second quarters of 2012.

Measures taken included:

- A thorough review and enhancement of the Bank's Corporate Governance Framework to comply with the new Code of Corporate Governance, issued by the Ministry of Industry and Commerce;
- The review and amendment of the Board and Board Committees composition; and
- The development of new corporate governance related policies and procedures.

The organisation chart below shows the Board and Management committee structure and reporting lines:



The Board of Directors

The Board of Directors is responsible for supervising the management of the Bank's business and its affairs and protecting and enhancing the Bank's assets in the interest of all shareholders, while overseeing the corporate governance function to ensure the highest standards of transparency and accountability. The Board's responsibilities include:

- Full preparation of financial statements;
- Promoting and achieving sustainable performance and long-term growth in shareholders' value;
- Approving and overseeing the implementation of the Bank's strategies, objectives and plans;
- Ensuring that the interests of all stakeholders are considered;
- Overseeing the accuracy and completeness of the Bank's corporate governance guidelines in compliance with the Central Bank of Bahrain's HC Module as well as the Code of Corporate Governance; and
- Providing strategic leadership and setting values and standards for the Bank.

The Board is comprised of members from diverse backgrounds, who combine a broad spectrum of experience and expertise with a reputation for integrity and professionalism.

The current Board comprises of 9 members, 6 of which are independent non-executive directors in accordance with the requirements of Bahrain's Code of Corporate Governance. As part of the Bank's corporate governance framework, the Bank introduced formal Board procedures, including the induction and training of new members and the continuing development and training of existing members. The Board, the Board's sub-committees and each individual director must all undergo formal review and evaluation of their performance as required by the Code.

The election and termination of directors is governed by the Bahrain Commercial Companies Law and the Bank's Articles of Association which require the election of directors by written ballot. The Board term for members is three years.

Names and details of current directors are set out on pages 37-39.

Board of Directors

No. of members	Three non-executive directors and six independent non-executive directors
Minimum no. of meetings per year	Four
Quorum	Five

Meeting Attendance 2011 – Board of Directors

Members	20 January	31 January	6 April	12 May	22 Sept.	19 Oct.	28 Dec.
Yousef Al-Shelash	✓	✓	✓	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓	✓	✓	✓
Abdullatif Al-Shalash	✓	✓	✓	✓	✓	✓	✓
Ayman Boodai	✓	✓	✓	✓	✓	✓	X
Ayman Abudawood	✓	✓	✓	X	X	✓	✓
Bader Kanoo	X	X	✓	X	✓	✓	✓
Dr. Ahmed Al-Dehailan	NA	NA	✓	✓	✓	X	✓
Waleed Al-Sharhan	✓	X	NA	NA	NA	NA	NA
Dr. Abdulaziz Al Orayer	NA	NA	✓	✓	✓	✓	✓
Adel Al-Saqabi	NA	NA	NA	NA	✓	✓	✓

Board Committees

The Board is assisted by four Board Committees: the Audit Committee; the Nomination, Remuneration & Governance Committee; the Executive Committee; and the Risk Committee. Board Committee membership details can be found on pages 35-37.

“IN 2011, BANK ALKHAIR DEVELOPED A REVISED AND MORE RIGID CORPORATE GOVERNANCE FRAMEWORK AS PART OF THE BANK’S ONGOING EFFORTS TO ENHANCE AND STRENGTHEN ITS CONTROL POLICIES AND PROCEDURES.”

Audit Committee

The Board has mandated the Audit Committee with assisting it in its oversight of statutory affairs relating to accounting and financial reporting, internal control systems, internal and external audit and compliance with Shari’ah and regulatory laws and regulations.

No. of members	Three non-executive directors, of which two should be Independent	
Members of the Committee	• Dr. Ahmed Al-Dehailan (Chairman since September 2011) • Mr. Adel Al-Saqabi (joined in September 2011) • Bader Kanoo • Abdullatif Al-Shalash (Chairman until September 2011/resigned from the Committee in February 2012)	Independent non-executive Independent non-executive Independent non-executive Non-executive
Minimum no. of meetings per year	Four	
Quorum	Two	
Responsibilities include:	• The integrity of the Bank’s financial statements, financial reporting process and systems of internal accounting and financial controls; • The appointment of the internal auditor and the regular review of the internal audit function; • The annual independent audit of the Bank’s financial statements, including making recommendations to the entire Board for the engagement of the external auditors and the evaluation of the external auditors’ qualifications, independence and performance; • Compliance by the Bank with legal and regulatory requirements, including the Bank’s disclosure controls and procedures and compliance with the Bank’s code of conduct; and • Oversight of the Bank’s risk profile and risk appetite.	

Meeting Attendance 2011 – Audit Committee

Members	20 January	12 May	11 August	27 October
Abdullatif Al-Shalash	✓	✓	✓	✓
Dr. Ahmed Al-Dehailan	NA	✓	✓	✓
Bader Kanoo	✓	X	X	✓
Adel Al-Saqabi	NA	NA	NA	✓

Nomination, Remuneration & Governance Committee

The Board has mandated the Nomination, Remuneration & Governance Committee with assisting it in establishing an impartial nomination, selection and remuneration process for directors, the CEO and executive management. The Committee also assists in discharging the Board’s oversight responsibilities in relation to corporate governance and compliance with legal and regulatory requirements and Shari’ah rules and principles.

No. of members	Three members, of which two should be non-executive directors and at least one should be Independent	
Members of the Committee	• Yousef Al-Shelash • Hethloul Al-Hethloul (Chairman until September 2011) • Dr. Abdulaziz Al Orayer (Chairman since September 2011) • Waleed Al-Sharhan (resigned from the Committee in March 2011)	Non-executive Non-executive Independent non-executive Independent non-executive
Minimum no. of meetings per year	Two	
Quorum	Two	
Responsibilities include:	• Board of Directors’ and individual directors’ performance; • Effectiveness of, and compliance with, the Bank’s corporate governance policies and practices; • Succession planning for the Board and senior management; and • Staff remuneration policy and fees for non-executive directors and for the Shari’ah Supervisory Board.	

Meeting Attendance 2011 – Nomination, Remuneration & Corporate Governance Committee

Members	6 April	12 May	22 September	28 December
Yousef Al-Shelash	✓	✓	✓	✓
Hethloul Al-Hethloul	✓	✓	✓	✓
Dr. Abdulaziz Al Orayer	NA	✓	✓	✓
Waleed Al-Sharhan	X	NA	NA	NA

Risk Committee

Established in August 2011, the Risk Committee (previously part of the Audit Committee) has been mandated by the Board to oversee the risk management framework of the Bank and ensure that the Bank's management takes adequate steps to monitor and mitigate risk exposures faced by the Bank.

No. of members	Three directors, of which two should be Independent	
Members of the Committee	• Adel Al-Saqabi (Chairman) • Dr. Ahmed Al-Dehailan • Dr. Abdulaziz Al Orayer	Independent non-executive Independent non-executive Independent non-executive
Minimum no. of meetings per year	Four	
Quorum	Two	
Responsibilities include:	• Group policy, processes and infrastructure (including operational risk) related matters • Credit approval and investment review process	

Meeting Attendance 2011 – Risk Committee

Members	28 December
Adel Al-Saqabi (Chairman)	✓
Dr. Ahmed Al-Dehailan	✓
Dr. Abdulaziz Al Orayer	✓

Executive Committee

The Executive Committee has been mandated with considering specific matters delegated to it by the Board and making recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board. The Committee also assists the Board in fulfilling its oversight responsibilities in relation to strategy, budget, financing plans, investments and operations. The Committee also has the power and authority to approve investments and expenditure up to a pre-approved limit specified by the Board.

No. of members	At least five	
Members of the Committee	• Yousef Al-Shelash (Chairman) • Hethloul Al-Hethloul • Abdullatif Al-Shalash • Ayman Boodai • Ayman Abudawood	Non-executive Non-executive Non-executive Independent non-executive Independent non-executive
Minimum no. of meetings per year	Two	
Quorum	Two	
Responsibilities include:	• Oversight of the Bank's operations, investment and finance related matters as well as providing assistance to the Board in ensuring and maintaining oversight of the Bank's risk management systems and control environment;	

- Review and proposal of strategic objectives of the Bank to the Board;
- Study and approval of business plans and ensuring alignment with the Bank's strategic objectives and strategic plan;
- Presentation of the annual financial, operational and capital expenditure budgets;
- Ensuring the Bank has strong risk management and internal control systems in place.

Meeting Attendance 2011 – Executive Committee

Members	22 September	28 December
Yousef Al-Shelash (Chairman)	✓	✓
Hethloul Al-Hethloul	✓	✓
Abdullatif Al-Shalash	✓	✓
Ayman Boodai	X	X
Ayman Abudawood	X	✓

Board of Directors' Biographies

YOUSEF A. AL-SHELASH

Chairman of the Board of Directors and founder shareholder/ Chairman of the Board's Executive Committee

Director since April 2004 (Non-executive director)

Number of years of experience: Over 20 years

Mr. Yousef A. Al-Shelash is the Chairman of Dar Al Arkan Real Estate Development Company (Dar Al Arkan) in Saudi Arabia. He is also the Chairman of the Strategic Acquisition Fund, Bahrain. Previously Mr. Al-Shelash served as a member of Investigation and Attorney General in Saudi Arabia, as well as a legal advisor to various legal consultancy firms in Saudi Arabia. He obtained an MSc in Law and Legal Proceedings from the Institute of Public Administration Al-Riyadh and a BSc in Shari'ah from Mohamed Bin Saud Islamic University, Saudi Arabia. He has received formal training in financial management and evaluation of investment projects and has also earned diplomas in both Banking and Combating Financial Crimes. Mr. Al-Shelash is one of the pioneers of the real estate development industry in the Kingdom of Saudi Arabia, beginning over two decades ago in the early 1990's. He also initiated the real estate mortgage industry in Saudi Arabia in 1998.

AYMAN ISMAIL ABUDAWOOD

Director since December 2008 (Independent non-executive director)

Number of years of experience: Over 20 years

Mr. Ayman Abudawood is Vice President of Finance, Regional & Overseas Investments, and Legal Structuring at the Abudawood Group, a diversified international conglomerate based in Saudi Arabia with investments in the Middle East, Europe and the USA. He has held senior management positions at the Abudawood Group for over 20 years and serves on the boards of Al-Khabeer Merchant Finance Corporation (Saudi Arabia), Helvetia Arab General Trade Company (Kuwait) and Oryx Capital (Saudi Arabia). He is also the Chairman of Alpine Wealth Management, an independent wealth management advisory group based in Bahrain. Mr. Abudawood holds a BS in Mechanical Engineering from the University of Arizona in the United States.

HETHLOUL SALEH AL-HETHLOUL

Director since April 2004 (Non-executive director)

Number of years of experience: Over 20 years

Mr. Hethloul Bin Saleh Al-Hethloul is a Saudi national, founding shareholder and member of Dar Al Arkan's Board of Directors. He has over 20 years of experience in real estate investment and finance, specifically conceptualising real estate strategies and related managerial plans. Mr. Al-Hethloul holds a diploma of Commercial Secondary Institutes in Riyadh (1990).

ABDULLATIF ABDULLAH AL-SHALASH

Director since April 2004 (Non-executive director)

Number of years of experience: Over 18 years

Mr. Al Abdullatif Al-Shalash is a Saudi national and has considerable experience in financial and information management systems. Mr. Al-Shalash occupies the position of Managing Director at Dar Al Arkan in addition to his role as a Board member of Bank Alkhair. He is also a Board member of t'azur and Strategic Acquisition Fund, Bahrain. Mr. Al-Shalash holds a Bachelor's degree in Organisation Leadership and Supervision from Purdue University, USA and an MBA from Findlay University, USA.

AYMAN ABDULLAH BOODAI

Director since September 2006 (Independent non-executive director)

Number of years of experience: Over 34 years

Mr. Ayman Boodai is the Chairman and Managing Director of The Securities House K.S.C.C. (Kuwait), a position he has held since 1986. Mr. Boodai has extensive experience in senior positions in the finance, investment and education sectors, and throughout his career he has held a series of prominent board positions. Mr. Boodai is the Vice-Chairman of The Securities House Real Estate Company KSCC – Kuwait. Previously, Mr. Boodai was the Vice-Chairman of both the Al Iman Investment Company and Aref Investment Group, and a board member of both the Union of Investment Companies and Gulf University for Technology. He was also a board member of the Arab Turkish Bank, the Kuwait Commercial Markets Company, the Al Mal Real Estate Company and Vice-Chairman of Al Salam Hospital. Mr. Boodai holds a diploma from the Institute of Banking Studies in Kuwait and is trained in financial analysis, portfolio management and monetary policy programmes.

BADER ABDULAZIZ KANOO

Director since April 2004 (Independent non-executive director and founder shareholder)

Number of years of experience: Over 20 years

Mr. Bader Kanoo has spent more than 20 years in various positions within the Yusuf Bin Ahmed Kanoo (YBAK) organisation, a 120-year-old, family-owned group of companies operating in Saudi Arabia and throughout the GCC. He is currently responsible for the Kanoo Joint Ventures Division and Business Development. Mr. Kanoo is a board member of a number of YBAK's joint venture and other companies, including Methanol Chemicals Co. Ltd. (Chemanol), Dammam 7 Petrochemicals Co. Ltd. and BioME W.L.L. Mr. Kanoo's main focus is on Petrochemical Downstream and Biotechnology. He also sits on YBAK's finance and holding company board committees. Mr. Kanoo holds a degree in Management from Mercer University, Georgia, United States.

DR. AHMED AL-DEHAILAN

Chairman of the Audit Committee and founder shareholder
Director since February 2011 (Independent non-executive director)

Number of years of experience: Over 19 years

Dr. Ahmed Al-Dehailan served as the Chief Financial Officer and Advisor to the General Manager at Dar Al Arkan. He was also a lecturer at Al Emam Mohamed University in Riyadh. Dr. Al-Dehailan holds board memberships in several other companies including the Saudi Home Loan Company (Director); the Strategic Acquisition Fund Company (Member of the Investment Committee); Bahrain Financing Company (Director), BFC Group Holding Limited; BFC Group Holdings W.L.L. (Director); t'azur, Bahrain (Director); and t'azur, Kuwait (Chairman).

DR. ABDULAZIZ AL ORAYER

Chairman of the Nomination, Remuneration & Governance Committee
Director since February 2011 (Independent non-executive director)

Number of years of experience: Over 39 years

Dr. Abdulaziz Al Orayer brings to the Board extensive experience gained over 39 years of working in high level positions in Saudi Arabia's public and private sectors. Dr. Al Orayer has been a member of the Saudi Arabian Majlis Al-Shura since 1997. Dr. Al Orayer has been the Chairman of t'azur's Board of Directors since its inception and has overseen the evolution of t'azur into one of the leading players in the GCC Family and General Takaful industry. He is also a Board member of Alkhair International Bank Berhad, Malaysia. Previously, Dr. Al Orayer was the Deputy Minister for the Saudi Ministry of Finance and National Economy. He also invested considerable time on the promotion of broader fiscal and societal projects; he has presided over the Saudi Delegation for Poverty-Stricken Countries Conference and chaired the Cultural Committee for the Conference of Islamic Countries Foreign Affairs Ministers. Dr. Al Orayer also held various positions in Saudi Credit Bank, Tawuniya NCCI insurance company and King Fahd University for Petroleum and Minerals. Dr. Al Orayer holds a Doctorate in Economics and Business Administration from the University of Wales in the UK, a Masters degree in Economics and Banking from Southern Illinois University and a Bachelor of Arts from the University of California, Berkeley.

ADEL AL-SAQABI

Chairman of the Risk Committee
Director since May 2011 (Independent non-executive director)

Number of years of experience: Over 20 years

Mr. Adel Al-Saqabi brings to the Board over 20 years of experience in the financial services sector. Mr. Al-Saqabi previously held senior positions in leading investment companies, including Gulf Investment Corporation, Al-Ahlia Investment Co. and Al-Safat Holding Co., where he was responsible for managing existing portfolios as well as identifying and assessing new investment opportunities. Throughout his years of experience, Mr. Al-Saqabi has held a number of prominent board positions in GCC based companies. He presently serves on the Boards of M/s Al-Safat Investment Co., M/s Al-Safwa Group Holding Co., Burj Bank and Danah Al Safat Foodstuff Co. Mr. Al-Saqabi is also the Chief Executive Officer of M/s Al-Safwa Group Holding in Kuwait, which focuses on investments in various sectors globally, including the oil & gas services, industrial and banking sectors. Mr. Al-Saqabi holds a degree in Business Administration with a major in Finance from the University of Kuwait.

WALEED AHMAD AL-SHARHAN (resigned in March 2011)
Director since February 2007 (Independent non-Executive Director)
Number of years of experience: Over 40 years
Mr. Waleed Al-Sharhan has been the Vice-Chairman and Chairman of the Executive Committee of Al Safwa Group Holding Co. since 2005. Mr. Al-Sharhan has held a series of senior positions in the industrial and financial sectors throughout his career, including Executive President of both Al Sharhan Industries, since 1970, and Ahmad Al-Sharhan Sons General Trading Co., since 1979. He was a board member of Al Ahlia Investment Co. from 1988 to 2002, serving as Vice-Chairman from 1997 to 1999 and Chairman from 2000 to 2002. He is currently Vice-Chairman of United Industries Co., a position he has held since 1992.

Shari'ah Supervisory Board

Shari'ah compliance is the cornerstone of Bank Alkhair's operations. A six-scholar Shari'ah Supervisory Board has been established to provide Islamic advice and guidance to ensure that all Bank Alkhair activities comply with Shari'ah law. The members of the Shari'ah Supervisory Board are prominent Islamic scholars who are well versed in international financial markets and have a proven track record in the implementation of Shari'ah rules and principles in Islamic banks, as well as in product development and Islamic finance structuring techniques.

The Shari'ah Supervisory Board is proactively involved in all product development and investment decisions relating to transactions and all underlying contractual documentation is only finalised after obtaining the approval of the Shari'ah Assurance division under the direct oversight of the Shari'ah Supervisory Board. The Shari'ah Supervisory Board sets out the Islamic opinions (Fatwas) which are required for approval of the structures of each financial transaction, service or investment product.

Shari'ah Supervisory Board Biographies

DR. KHALID MATHKOOR AL-MATHKOOR
Chairman
Dr. Khalid Mathkoor Al-Mathkoor is the Chairman of the Higher Consultative Committee for Finalisation of the Application of the Provisions of Islamic Shari'ah for the State of Kuwait. He is a Lecturer in the Division of Comparative Jurisprudence and Shari'ah Policy ofthe Faculty of Shari'ah and Islamic Studies at the University of Kuwait. Dr. Al-Mathkoor is a member of the Higher Planning Board of the State of Kuwait, and serves on the Shari'ah Supervisory Boards of a number of Islamic banks. Dr. Al-Mathkoor holds a PhD in Shari'ah from Al-Azhar University.

DR. AAGIL JASIM AL-NASHMY
Deputy Chairman
Dr. Aagil Jasim Al-Nashmy is a Professor at the Faculty of Shari'ah and Islamic Studies at the University of Kuwait. He represents the State of Kuwait in the Islamic Fiqh Academy, which evolved from the Organisations of Islamic Conference in Jeddah, Saudi Arabia. He is a member of the Shari'ah Supervisory Boards of a number of Islamic banks, as well as of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Dr. Al-Nashmy also serves on the Fatwa Committee of the Kuwait Ministry of Awqaf and Islamic Affairs. Dr. Al-Nashmy holds a PhD in Shari'ah from Al-Azhar University.

DR. ABDUL SATTAR ABU GHUDDAH
Dr. Abdul Sattar Abu Ghuddah is a member of the Islamic Fiqh Academy which evolved from the Organisations of Islamic Conference in Jeddah, Saudi Arabia. He sits on both the Standard Board and Shari'ah Board of AAOIFI. He is also a member of the Shari'ah Supervisory Board for a number of Islamic banks. Previously, Dr. Abu Ghuddah held the positions of Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf and Islamic Affairs, State of Kuwait. Dr. Abu Ghuddah holds a PhD in Shari'ah from Al- Azhar University.

DR. ALI MUHYEALDIN AL-QURADAGHI
Dr. Ali Muhyealdin Al-Quradaghi is a professor and Chairman of the Department of Jurisprudence and its Principles in the Faculty of Shari'ah Law and Islamic Studies at the University of Qatar. He is a member of the Islamic Fiqh Academy, Organisation of Islamic Conference, in the Kingdom of Saudi Arabia. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks. Dr. Al-Quradaghi holds a PhD in Shari'ah from Al-Azhar University.

DR. MOHAMMAD DAUD BAKAR
Dr. Mohammad Daud Bakar is currently president and CEO of the International Institute of Islamic Finance Inc. and Amanie Business Solutions Sdn. Bhd. Kuala Lumpur, Malaysia. Previously, Dr. Bakar held the position of Deputy Rector for Student Affairs and Development of the International Islamic University, Malaysia. He also served as Dean of the Centre for Postgraduate Studies and Associate Professor of Islamic Law at the International Islamic University, Malaysia. Dr. Bakar is a member of the Shari'ah Advisory Councils of both the Securities Commission and Bank Negara (Central Bank), Malaysia. Dr. Bakar holds a PhD in Shari'ah from St. Andrews University, UK. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

SH. NIZAM MOHAMMAD SALEH YAQOUBY

Sh. Nizam Mohammad Saleh Yaqouby is a member of the Shari'ah Supervisory Board of a number of Islamic banks and institutions. He holds a BA in Economics and Comparative Religion from McGill University, Canada and at present is a PhD candidate in Islamic Law at the University of Wales. He also sits on the Shari'ah Supervisory Board for a number of Islamic banks.

Shari'ah Assurance

Bank Alkhair's Shari'ah Assurance division works closely with the Shari'ah Supervisory Board in the development and pre-screening of every business proposition. The Shari'ah Assurance division also plays a key role in ensuring that the Fatwas of the Shari'ah Supervisory Board are consistently applied.

The Shari'ah Assurance division actively monitors all transactions and forms an integral part of the investment process from the outset. It is also a member of the Investment and Post-Investment Management Committee and has recently become a member of the Risk Committee. The Shari'ah Assurance division validates all business propositions against both Shari'ah principles and Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards.

All transactions and dealings during the year ended 31 December 2011 were in compliance with the rules and principles of Islamic Shari'ah, except for the financing of Al Tajamouat Mall. However, the Bank plans to refinance the project using Shari'ah compliant financing.

During the year, Bank Alkhair recovered US$411,471 from a client towards late payment charges on a financing facility. This has been allocated by the Shari'ah Board to registered charities.

In 2011, the Bank reported minimal non-Shari'ah compliant income to the Shari'ah Supervisory Board which advised the Bank to donate this income to registered charities and submit the list of beneficiaries once payment has been made.

Management Committees

Investment and Post-Investment Management Committee (IPIMC)

The purpose of the IPIMC is to ensure and oversee the efficient and comprehensive transition of an investment transaction from the point of origination to the point of closing, including all internal approval requirements and external financial and legal due diligence. The Committee includes management, product origination, finance and risk officers.

The IPIMC also assumes responsibility for the monitoring of all existing investments with the objective of ensuring the fulfillment of all closing requirements of the transaction. The Committee is also responsible for post-investment management and overseeing the ongoing performance of the portfolio to ensure a successful exit.

Asset and Liability Committee (ALCO)

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

Risk Committee

The Risk Committee's overall responsibility is to ensure that the Bank develops appropriate risk policies and strategies for the relevant business activities, including compliance with Basel II. The Risk Committee oversees the risk management, compliance and all operational activities of the Bank, and reviews and approves risk management principles, frameworks, policies, projects, limit processes and procedures. Furthermore, it is the first institutional body to approve all counterparty, market risk, business line and country limits on a group wide basis.

Senior Management Biographies

IKBAL DAREDIA

Acting Chief Executive Officer & Head of Capital Markets, Institutional Banking and Treasury

Chief Executive Officer, Alkhair International Islamic Bank Berhad

Mr. Ikbal Daredia has 20 years of experience in Islamic banking. Prior to joining Bank Alkhair in October 2006, he was the Deputy Chief Executive Officer of Noriba, UBS's global Islamic platform for Shari'ah compliant products and services. Prior to Noriba, Mr. Daredia worked for four years with ABN AMRO in Bahrain as the Global Head of Islamic Financial Services. Mr. Daredia has originated and executed several Islamic structured cross-border transactions for sovereign entities and corporates in Turkey, the GCC, the Philippines, India, Pakistan and the United Kingdom. He was responsible for the distribution of the US$600 million and US$1 billion Sukuk issues for Dar Al-Arkan in 2007. He was the Noriba project leader for the first ever US$750 million Exchangeable Sukuk for Khazanah, Malaysia. He was also the project leader for the US$350 million first internationally rated corporate Sukuk for Sarawak Corporate Sukuk Inc. (Malaysia), which was jointly led by UBS Investment Bank and Noriba in 2004. Prior to this, in 2001, he worked on the Sukuk issue for Kumpulan Guthrie, Malaysia. Mr. Daredia is an Associate of the Chartered Institute of Bankers, England.

DR. MUHAMMAD AL-BASHIR M. AL-AMINE

Group Head of Shari'ah

Dr. Muhammad Al-Bashir M. Al-Amine joined Bank Alkhair in 2005 and is currently the Deputy Head of Shari'ah. Dr. Al-Bashir's responsibilities include managing the Bank's Shari'ah affairs in terms of compliance, audit and product development through close coordination with the Bank's Shari'ah Supervisory Board and the senior management team; supervising the Shari'ah affairs of Bank Alkhair's subsidiaries in Saudi Arabia, Malaysia, and Turkey; and organising workshops to educate the Bank's employees on structures and Shari'ah principles of Islamic finance. Prior to joining Bank Alkhair, Dr. Al-Bashir was the Head of Product Development and Shari'ah Compliance at the International Islamic Financial Market (IIFM). He was also a part-time lecturer at the Faculty of Laws International Islamic University Malaysia; Ibn Sina Institute of Technology (Malaysia); the Matriculation Center International Islamic University (Malaysia), the Bahrain Institute of Banking and Finance; the Kingdom University (Bahrain); and The Open University of Malaysia in Bahrain. Dr. Al-Bashir is the author of Sukuk and Islamic Securitisation Markets: Financial Engineering and Product Development (Brill, forthcoming); Risk Management in Islamic Finance: An Islamic Analysis of Derivatives Instruments in Commodity Markets (Brill, 2008) and Istisna (Manufacturing Contract) in Islamic Banking and Finance Law and Practice (A.S. Noordeen, 2001 & 2006). He has also contributed to a number of articles published in international journals. Dr. Al-Bashir holds a LLB (Shari'ah) from the Islamic University of Madina and a Masters of Comparative Law (MCL) and PhD in Law from the International Islamic University Malaysia.

PHILIP STOCKBURN (resigned)

Chief Financial Officer

Mr. Philip Stockburn joined Bank Alkhair in September 2006. He served as the Chief Financial Officer from 2009 until his resignation from the Bank in July 2011.

AMIR AHMED

Chief Financial Officer

Mr. Amir Ahmed has extensive international and regional banking experience in Audit, Risk Management and Finance. He began his career with Prudential Securities as a Securities Analyst. Prior to joining Bank Alkhair in April 2007, he worked as Group Head of Internal Audit, Investment & Corporate Banking, for Riyad Bank in Saudi Arabia. During his five years at Riyad Bank, he also led the implementation of Basel II. Prior to moving to the Middle East, Mr. Ahmed worked for Scotiabank in Canada, as Head of Operational Risk Management in the Global Risk Management Division. He represented Scotiabank in the Canadian Bankers' Association subcommittee on Operational Risk (Basel II). He also worked for TD Bank Financial Group in its corporate head office in Toronto, Canada as Internal Audit Manager, Corporate & Investment Banking Group. Mr. Ahmed holds an MBA in Finance and is a CPA from Washington, USA. Mr. Ahmed also passed the Registered Securities Representative exams from the National Association of Securities Dealers Inc.

KUBRA ALI MIRZA
Chief Compliance Officer, MLRO & Board Secretary
Mrs. Kubra Ali Mirza has over 14 years of experience in investment banking, financial regulations, corporate governance, compliance, financial crimes and anti-money laundering. Mrs. Mirza joined Bank Alkhair in January 2011 as the Chief Compliance Officer and Board Secretary. She is also the Secretary of the Bank's Audit Committee and the Nominations & Remunerations Committee. Prior to joining Bank Alkhair, Mrs. Mirza was the Head of Compliance, MLRO and Board Secretary; Secretary of the Corporate Governance Committee and Secretary of the Finance & Investment Committee at Venture Capital Bank Mrs. Mirza was also a Programme Director at Tatweer Consulting Company. From 2003 to 2007, Mrs. Mirza was the Head of Policy & Central Risk Unit at the Central Bank of Bahrain (CBB). She was also a member of several management committees of the CBB, including the Basel II Committee, Financial Institutions Law Committee, Regulatory Policy Committee, Banking Supervision Committee and the E-government Committee. Mrs. Mirza was also a member of several local and international regulatory working groups and task forces including the Basel II (Pillars I & 2) Working Group, the Islamic Financial Service Board's (IFSB's) Market Conduct Working Group, and the Arab Monetary Fund's Banking Supervision Working Group. Mrs. Mirza holds a Bachelors degree in Accounting and an Executive MBA from the University of Bahrain. She is a certified anti-money laundering specialist and holds a CAMS credential issued by the Association of Certified Anti-Money Laundering Specialists (ACAMS). Mrs. Mirza is also a certified compliance officer and a member of the American Academy of Financial Management

AYHAM GHARAIBEH
General Counsel
Mr. Ayham Gharaibeh has over 10 years of legal experience in investment banking, specialising in Private Equity, Asset Management, Capital Markets, Mergers & Acquisitions, and Corporate Finance transactions. Mr. Gharaibeh has structured and successfully closed over 30 sizable transactions at Bank Alkhair to date. He also serves as the Co-Secretary of the Board of Directors, and a member of the Investment Committee. Mr. Gharaibeh is also a Director in over 15 companies held by the Bank Alkhair group. Prior to joining Bank Alkhair, Mr. Gharaibeh was the General Counsel and Chief Compliance Officer at Atlas Investment Group (AB Invest), the investment banking arm of Arab Bank - Amman, Jordan. Mr. Gharaibeh holds a BA and a Masters degree in International Business Law.

LARS HUELSMANN (resigned)
Chief Risk Officer
Mr. Lars Huelsmann joined Bank Alkhair in October 2009 and served as the Chief Risk Officer until his resignation from the Bank in July 2011.

LLOYD KAWARA
Chief Risk Officer
Lloyd Kawara joined the Bank as Senior Risk Manager in 2010 and was appointed as the Chief Risk Officer in January 2012. Prior to joining Bank Alkhair, Mr. Kawara served as the Senior Vice President and Head of Risk at Bahrain Middle East Bank. Prior to this, Mr Kawara worked in Riyad Bank in Saudi Arabia as a Risk Management Officer, where he was instrumental in the establishment of a risk and compliance framework for Riyad Capital. Mr. Kawara is a CFA Charterholder. He is also a Certified Financial Risk Manager (FRM) with GARP. In addition, he is an Associate Chartered Management Accountant with CIMA as well as a Chartered Alternative Investment Analyst (CAIA) with the Chartered Institute of Alternative Investments. Mr. Kawara holds a Master of Science degree in Finance and Investment from NUST, Zimbabwe and a Bachelor's degree from the University of Zimbabwe.

PATRICK VAN SURELL (resigned)
Acting Chief Executive Officer, Alkhair Capital Saudi Arabia and Head of Corporate Finance
Mr. Patrick Van Surell joined Bank Alkhair in 2005 as Head of Corporate Finance. He later served as Acting Chief Executive Officer of Alkhair Capital Saudi Arabia until his resignation from the Bank in September 2011.

AHMED ABDULRAHMAN (resigned)
Head of Private Equity - GCC
Mr. Ahmed Abdulrahman joined Bank Alkhair in December 2005 and served as the Head of Private Equity – GCC, responsible for sourcing, structuring and closing private equity transactions. He resigned from the Bank in December 2011.

NICOLAS MARTIN
Managing Director, Strategic Mergers & Acquisitions
Mr. Nicolas Martin joined Bank Alkhair in 2009 as Managing Director, Strategic M&A. Mr. Martin has extensive international experience and throughout his 20 year career has managed some of the largest and most high profile M&A transactions recorded. Prior to joining Bank Alkhair, Mr. Martin was General Manager, Strategic M&A, at Fortis (based in Brussels and Hong Kong). During the three years that he held this position, Mr. Martin coordinated the entire M&A process of Fortis' joint acquisition of ABN AMRO (EUR744 billion), managing a team of 50 to close the transaction. Mr. Martin began his career with ABN AMRO as a director in the bank's Corporate Finance division. During his 15 years at ABN AMRO, he held various positions based in London, Amsterdam and Hong Kong, and was Executive Director, Business Development, prior to leaving the bank in 2004. Between 2004 and 2006, Mr. Martin was a Client Industry Executive at EDS (London). He was responsible for the coverage of key French and Belgian financial institutions, driving financial institutions' business development in EMEA South and heading up the global banking and capital markets group's mandate to develop EDS' future-state strategy. Mr. Martin graduated from the University of Geneva with a BA in Business Administration (1984) and holds an MBA from INSEAD (1989).

ANTOINE TOHME (resigned)
Head of Information Technology
Mr. Antoine Tohme joined Bank Alkhair in October 2005 as Head of Information Technology. He resigned from the Bank in May 2011.

MUHAMMAD ABBAS KHAN
Head of Group Internal Audit
Mr. Abbas Khan joined Bank Alkhair in 2009, and is currently the Head of the Group Internal Audit function. Mr. Khan has over 15 years of experience in internal audit, forensic investigations, and operational risk management. Prior to joining Bank Alkhair, Mr. Khan worked at Ernst & Young, where he was instrumental in developing and enhancing corporate governance practices, enterprise risk management and internal audit capabilities for various investment banks and financial institutions in the region. Prior to moving to the Middle East, Mr. Khan served as the Chief Internal Auditor for a US based organisation with operations in Pakistan, Iran and Afghanistan. He is also the Vice Chairman of the Audit & Legal Committee of the Bahrain Association of Banks. Mr. Khan is a member of the Institute of the Chartered Accountants of Pakistan and holds a certification from the Institute of Internal Auditors, USA.

HASAN AL-EID
Group Head of Information Technology
Mr. Hasan Al-Eid is currently serving as the Group Head of Information Technology. Mr. Al-Eid has over 20 years of experience in IT operations, technical support, software engineering, information security, and the development of web applications. Throughout his career, Mr. Al-Eid worked for various organisations in the public and private sectors of Bahrain. Mr. Al-Eid was involved in various projects of the Government of Bahrain, including the establishment and management of the Government's information security policies, standards and guidelines. He joined the banking industry in 2005, and served as the Assistant IT & Information Security Manager at Kuwait Finance House. He later served as the IT & Information Security Manager at Bahrain Islamic Bank. Mr. Al-Eid holds a Master of Science degree in Computer Science from the University of Wales, UK.

SEBNEM KALYONCUOGLU
Chief Executive Officer and General Manager, Alkhair Capital Menkul Değerler A.Ş. (Turkey)
Ms. Sebnem Kalyoncuoğlu has several years of international banking experience at leading financial institutions in Turkey, London and Amsterdam. She was previously Country Manager and Head of Investment Banking at Credit Suisse in Turkey, where she was responsible for the origination and execution of debt and equity capital market and advisory transactions, fixed income and equity derivative trades and acquisition financing. She was also in charge of senior client coverage for Turkey with overall responsibility for managing the bank's relationships with financial institutions,corporates and sovereign entities. Prior to joining Credit Suisse, Ms. Kalyoncuoğlu was a director covering Turkey in the Emerging Markets Coverage Group at Credit Suisse First Boston in London. She previously spent several years at ABN AMRO in Turkey and Amsterdam, where she was a vice president in the Structured Finance Group. She joined Alkhair Capital Turkey in July 2008. Ms. Kalyoncuoğlu holds an MSc in Finance from the London School of Economics and a BSc in Management from Bogaziçi University in Turkey.

TAREK AL-RIKHAIMI
Chief Executive Officer, Alkhair Capital Saudi Arabia
Mr. Al-Rikhami has over 20 years of experience in the financial services sector. Prior to joining Alkhair Capital Saudi Arabia, Mr. Al-Rikhaimi served as the Chief Operating Officer of Samba Capital & Investment Company, where he was responsible for assisting the CEO in developing and formulating strategies and business plans, overseeing business support functions, in addition to managing and monitoring the performance of all outsourced functions. From 1997 to 2009, Mr. Al-Rikhaimi held various positions at Samba Financial Group (Samba). In January 2003, Mr. Al-Rikhaimi was appointed as the Head of Treasury and Investment Operations at Samba and was responsible for managing its treasury and investment operations and developing and delivering new products. Mr. Al-Rikhaimi also held several high level positions at United Saudi Commercial Bank. Mr. Al-Rikhaimi holds a Bachelors of Science degree as well as a Masters degree in Civil Engineering from King Saud University, Riyadh.

Corporate Governance Policies and Procedures

Compensation of the Board of Directors and Executive Management
Compensation of the Board of Directors and Executive Management is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting. Under the Articles of Association, the total remuneration that the Board of Directors may receive shall not exceed 10 percent of the net profit in any one financial year after allowing for statutory reserves.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. Total remuneration includes salaries, allowances, reimbursement of expenses, post employment benefits and performance related incentives.

Senior Management are entitled to a fixed remuneration as per their contractual agreements, and any other performance-related incentives/bonuses must be approved by the Board.

Details of the aggregate compensation (including benefits) for the Board of Directors and Executive Management for the year ended 31 December 2011 can be found on page 22.

Continuous Development of the Board and Board Committees
In 2011, a formal policy was developed and adopted for the induction and training of directors. An induction programme was conducted for new members of the Board of Directors and was also attended by existing Board members. The induction programme covered governance information and financial training, and directors were provided with all the relevant documents and policies relating to the Bank.

Furthermore, as part of the Board's continuous development, Board members attended a training workshop on corporate governance organised by the Waqf fund. Other specific programmes covering areas such as risk management are planned annually.

Board Performance Evaluation
Bank Alkhair has also developed a policy to govern the annual review mechanism of the Board, the Board's sub-committees and each individual director against specific criteria. The review evaluates the performance of the Board, the Board's committees and individual directors, including the Chairman.

Code of Conduct
The Board of Directors has adopted a written code of ethical business conduct, which includes the following;

- Honesty and observance
- Avoidance of conflicts between personal interests and the interests of the Bank
- Respecting confidentiality of information obtained during the course of business
- Maintenance of the Bank's reputation and avoidance of activities which might reflect adversely on the Bank
- Integrity in dealing with the Bank's assets
- Setting high personal standards and adhering to the Code of Conduct
- Keeping abreast of current good practices

Conflict of Interest
No conflicts of interest occurred during the year. Bank Alkhair has a formal conflict of Interest policy which applies to all directors and employees, including a signed undertaking requiring directors to disclose their personal interests annually. The conflict of interest policy requires Board members to inform the entire Board of potential conflicts of interest between the Bank's activities and their personal interests, and abstain from voting on matters relating to them in accordance with the relevant provisions of the Company Law.

Related party transactions
The Bank has an approval process for related party transactions in place. The approval process is reflected in the Bank's Group Code of Conduct and Corporate Governance Policy. In this regard, the Bank has complied with Article 32(3) of the Bank's Articles of Association and Article 189 of the Bahrain Commercial Companies Law CCL.

Transactions with a monetary value between US$7-25 million require the approval of the Board Executive Committee, and any transaction above US$25 million requires Board approval.

Details of related party transactions are disclosed in note 21 of the financial statements.

Investor Complaints Policy
In order to strengthen and formalise the Investor complaints mechanism, Bank Alkhair has developed a policy for managing complaints received from investors, along with a formal escalation structure to ensure complaints are dealt with effectively and efficiently.

Whistle-blowing Policy
Bank Alkhair endeavors to operate in a climate of transparency, and in order to strengthen and encourage transparency, the Bank has developed a whistle-blowing policy to facilitate the escalation of employees' concerns and suspicions of criminal or unethical conduct.

Shareholder Communications Policy
Bank Alkhair is dedicated to maintaining an open line of communication with its stakeholders, and as such has adopted a shareholder communications policy based on Central Bank of Bahrain and Corporate Governance regulations to ensure transparent and accurate information is disclosed in a professional and timely manner. Communication with shareholders is disseminated in several ways, including the Annual Report, the Annual General Meeting, the corporate website and timely announcements in the local media.

Corporate Social Responsibility
Bank Alkhair is committed to supporting and contributing to the communities in which it operates. In 2011, the Bank supported a number of events, including the Shaikh Khaled Bin Hamad Al-Khalifa Horserace for children with special needs and the Shaikh Nasser bin Hamad Al-Khalifa Soccer Championship. The events were selected as part of the Bank's initiative to support and encourage the youth of Bahrain. Furthermore, the Bank made a donation to the Alia Centre for Early Intervention, a Bahrain based institute for children with behavior and communication disorders. Bank Alkhair also made an Eid donation to support Al Sanabil Orphan Care, a charity which provides care and support to over 750 orphans in Bahrain.

Compliance with the Central Bank of Bahrain's Corporate Governance Guidelines
For the 2011 financial year-end, all banks are required to be in compliance with the Central Bank of Bahrain's (CBB's) recently issued High Level Controls Module (HC Module), which focuses on strengthening the corporate governance function of banks. The HC Module contains rules, which must be complied with, and guidance, which may be complied with, or in cases of non-compliance, must be disclosed in the Annual Report and explained to the CBB.

For the year 2011, Bank Alkhair is fully compliant with the requirements of the HC Module, except for the following:

Guidance Non-Compliance:
HC-1.4.6 recommends that the Chairman of the Board is an independent director. However, as the majority of the Board members are independent, the independence of the decision making is not compromised. Furthermore, of the four Board committees, the Chairmen of three committees are independent, including the Nominations, Remunerations & Governance Committee; the Audit Committee; and the Risk Committee. The Bank also has a conflict of interest policy as well as a directors' independence policy in place, which require Board members to declare their personal interests on an annual basis.

HC-1.4.10 recommends that each Board meeting is preceded or followed by a session solely for independent directors. As part of the Board Charter and the Bank's conflict of interest policy, conflicted directors must abstain from being present in meetings where an issue of conflict is being decided upon; these meetings have not taken place in 2011. However, the Bank will ensure to fully comply with this guidance going forward.

HC-1.8.2 and HC-9.2.4 recommend that the Corporate Governance Committee is established of at least three independent members. Currently, all members are non-executive directors, and two members of the Committee, including the Chairman and Shari'ah scholar, are independent.

HC-1.9.4 recommends that the Board reports the completion of evaluations as well as its findings to shareholders. Although the performance evaluation policy and questionnaires for the Board, the Board sub-committees, and individual directors have been approved and are in place, evaluations are pending.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND COMPLIANCE (continued)

Control Functions

Group Internal Audit

Group Internal Audit reports directly to the Board Audit Committee to provide independent and objective assurance over the adequacy, sustainability and effectiveness of the Bank's governance, internal controls and risk management processes. In addition, Group Internal Audit provides internal audit services to the Bank's subsidiaries, and oversees the internal audit process in BFC Group and t'azur. Group Internal Audit discusses the results of all assessments with Management, and reports its action plans, findings and recommendations, via a structured process, to the Board Audit Committee on a quarterly basis. Group Internal Audit has also established continuous controls monitoring framework that is aimed to independently verify selected controls on a regular basis. Group Internal Audit recommendations are tracked for resolution via the Audit Committee.

Compliance

Bank Alkhair is committed to meeting the highest levels of ethical standards in all areas of its operations. The Board of Directors of Bank Alkhair was keen to establish a strong and independent Compliance department to assist the Senior Management of the Bank in effectively managing its compliance risk. The Compliance department reports functionally to the Board of Directors and administratively to the CEO, and is responsible for overseeing the Bank's compliance programme. It is responsible solely for compliance-related issues and functions independently from other business activities, including those where the department's independence and objectivity may be compromised. The Compliance department is responsible for the management of compliance risk at the Group level for the Bank and its subsidiaries, and for ensuring that the Group's policies, procedures and operations are in line with all applicable rules and regulations. It also assists Senior Management in educating staff and increasing awareness regarding compliance issues across the Group.

Anti-Money Laundering (AML)

Bank Alkhair's Anti-Money Laundering function administers the authorisation process by which the Bank's targets are approved as legitimate clients, and thereafter continues to monitor clients to ensure effective compliance with the rules and regulations stipulated in the Central Bank of Bahrain's Financial Crime Module and international best practices. This has been achieved through the appointment of a designated Money Laundering Reporting Officer and Deputy Money Laundering Reporting Officer and the development of a detailed AML policy, procedures and comprehensive KYC documentation to rigorously screen potential investors' identities and source of funds.

Risk Management

Risk is an inherent part of Bank Alkhair's business and the Bank's ability to properly identify, assess, mitigate and actively manage risks is a core element of its operating philosophy and profitability. The Bank's approach to managing risk involves the establishment of a risk management framework that includes: supporting risk governance arrangements, approved risk management policies, limits and processes, supporting risk management infrastructure and an independent risk function. The Bank's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Bank's activities.

Risk Management Function

The Risk Management function is responsible for designing and implementing the Bank's risk framework, including policies, processes and systems. Risk Management conducts independent risk assessments of strategic developments, business plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is also responsible for ensuring that the Bank's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

Risk Governence

Board Risk Management Oversight

The Board of Directors is ultimately responsible for risk management oversight. In recognition of this responsibility, the Board, in 2011, appointed a separate Board Risk Committee to provide exclusive focus on risk management issues and oversight. The Risk Management function, through the Chief Risk Officer, reports to the Acting Chief Executive Officer, with a dotted reporting line to the Board Risk Committee.

The Board is responsible for defining the Bank's risk appetite within the framework of the risk strategy under which Bank Alkhair manages its risk exposures. The Board sets delegated authority limits and reviews the Bank's compliance with them.

Senior Management Risk Oversight
The Risk Executive Committee (REXCO) based in Bahrain acts as the senior management risk oversight authority with all subsidiary Risk and Credit Committees having a reporting line to REXCO. The establishment of REXCO is designed to support effective Bank risk oversight and governance across the Group through ensuring harmonisation of Group risk standards, policies and reporting processes.

Risk Policy Framework
Group Risk Strategy
The Bank's risk strategy defines risk appetite in terms of business growth, capital adequacy, compliance with regulatory requirements, return on equity, business strategy and exposure limits.

As part of the Bank's risk strategy, countries are clustered into core countries, countries in which 80% of Bank revenues are generated; network countries, mostly peripheral countries; and extended countries, where the Bank takes a very opportunistic view but with a very limited business focus. Core countries drive the majority of the Bank's business and have the largest allocation of country exposure limits depending on individual country ratings. Second in line are network countries followed by extended countries with the smallest allocation of country exposure limits.

The risk strategy forms a critical part of the risk policy framework for the Bank and will be continuously reviewed and updated in line with changes in the business strategy. Additional information is available in note 22 of the financial statements.

Risk Management Process
The Bank has established a number of supporting risk policies including policies on credit risk, operational risk, large exposure, liquidity management and outsourcing risk. These policies are subject to review and update on a continuous basis. All risk policies are established in line with the group risk framework which defines common risk management standards, processes and structures across the Alkhair Group.

Basel II and Capital Management
The Bank made great strides in its Basel II compliance efforts in 2011 with the implementation of various critical risk policies, tools, risk framework and strategy, and the establishment of risk architecture and other critical risk infrastructure. The Bank is now finalising tools and policies for implementing Pillar 2 of Basel II. The Bank's Basel II efforts are led by the Risk Management Department under the auspices of the Basel Steering Committee. Reports on the progress and status of Basel II compliance plans are submitted to the CBB on a monthly basis. The Bank stands ready to implement Basel III in line with CBB regulatory requirements and timelines.

Share Ownership Structure

Share ownership by nationality

Nationality	No. of Shares	No. of Shareholders	Percentage (%)
Saudi Arabian	150,864,544	46	72.54
Kuwaiti	38,099,800	35	18.32
Bahraini	5,762,532	30	2.77
Cayman Islands	4,576,703	1	2.2
Qatari	3,456,006	3	1.66
Others	5,202,329	56	2.5

Share ownership by percentage of equity

Class of Equity	No. of Shares	No. of Shareholders	Percentage (%)
Less than 1%	32,082,281	151	15.43
1% to less than 5%	120,519,831	15	57.95
5% to less than 10%	55,359,802	5	26.62

Share ownership of directors and senior management

Name	Position	Percentage (%) as of 31 December 2011
Yousef Abdullah Al-Shelash	Chairman	5.55%
Abdullatif Abdullah Al-Shalash	Director	5.18%
Hethloul Saleh Al-Hethloul	Director	5.18%
Ahmed Saleh Al Dehailan	Director	4.99%
Bader Abdulaziz Kanoo	Director	0.37%
Ikbal Haji Karim Daredia	Acting Chief Executive Officer	0.04%
Ayham Yousef Gharaibeh	General Counsel	0.02%
Ahmed Abdulwahed Abdulrahman	Head of Private Equity	0.01%
Muhammad Al-Bashir Muhammad Al-Amine	Head of Shari'ah	0.01%
Syed Amir Ahmed	Chief Financial Officer	0.0000052%

*No shares were traded by the Bank's directors during the year

Shareholdings above 5%

Name	Percentage (%) as of 31 December 2011
Yousef Abdullah Al-Shelash	5.55%
Sultan Abdulrahman Abalkheel	5.55%
Abdullatif Abdullah Al-Shalash	5.18%
Hethloul Saleh Al-Hethloul	5.18%
Fahad Abdulaziz Al-Sekait	5.18%

Other Disclosures

Legal Contingencies

According to the Extraordinary General Meeting resolution passed in October 2010, the Bank's Board of Directors was mandated by the General Assembly to bring legal action against the former Chief Executive Officer & Managing Director. Accordingly, the Bank has filed various legal proceedings against the former Chief Executive Officer & Managing Director before the Civil and Criminal Courts of the Kingdom of Bahrain. In view of the results made by the General Prosecutor and the advice the Bank received from its legal counsel, Bank Alkhair is confident that damages will be awarded to the Bank.

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

Reasons for Change of External Auditors

Bank Alkhair's external auditors are responsible for the audit and review of the Bank's financial statements in accordance with applicable auditing standards, laws and regulations. The Bank changed its external auditors during the 2010 Annual General Meeting to KPMG Fakhro. The change of auditors was in the interest of good corporate governance, which recommends that the external auditors should be changed every three to five years. KPMG is a leading provider of professional services including audit, tax and advisory and offers clients a broad array of services complemented by significant technical and industry experience.

Consolidated Financial Statements

For the year ended 31 December 2011

Contents

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (C)
(formerly Unicorn Investment Bank BSC (c)), Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank Alkhair BSC (c) (formerly Unicorn Investment Bank BSC (c)) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated statement of changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011 and of the results of its operations, its cash flows, changes in equity and changes in restricted investment accounts for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 were audited by another auditor whose audit report dated 31 January 2011 expressed an unqualified opinion on those consolidated financial statements.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that: the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book Volume 2, applicable provisions of Volume 6 and CBB directives, the CBB Capital Markets Regulations and associated resolutions or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

kpmg

18 March 2012
Manama, Kingdom of Bahrain

SHAR'IAH SUPERVISORY BOARD REPORT

TO THE SHAREHOLDERS OF BANK ALKHAIR BSC (C)
(formerly Unicorn Investment Bank BSC (c)), Manama, Kingdom of Bahrain

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

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

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts relating to the transactions conducted by Bank Alkhair BSC (c) (formerly Unicorn Investment Bank BSC (c)) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2011. We have conducted our review with a view to form an opinion as to whether the Group has complied with the rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

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

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

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2011 are in compliance with the rules and principles of Islamic Shari'ah, except the investment in Taj Mall project which the Shari'ah Board advised in a previous resolution to exit as soon as possible.

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

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

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

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

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Dr. Khalid Mathkoor Al-Mathkoor

Dr. Aagil Jasim Al-Nashmy

Dr. Abdul Sattar Abu Ghuddah

Dr. Ali Muhyealdin Al-Quradaghi

Sh. Nizam Mohammed Yaqouby

Dr. Mohammed Daud Baker

7 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Note	**31 December 2011**	31 December 2010 (restated)
ASSETS			
Cash and balances with banks	4	**11,081**	43,943
Placements with financial institutions		**66,477**	72,437
Financing receivables	5	**95,838**	229,413
Investment securities	6	**130,383**	123,002
Investments in associates	7	**114,952**	104,745
Investment property	8	**17,706**	17,706
Other assets	9	**38,552**	8,632
Equipment		**5,483**	7,147
Assets held-for-sale	10	**2,560**	120,923
TOTAL ASSETS		**483,032**	727,948
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial and non-financial institutions	11	**231,661**	393,980
Subordinated murabaha	12	**-**	51,249
Other liabilities	13	**16,205**	27,696
Liabilities relating to assets held-for-sale	10	**-**	52,617
TOTAL LIABILITIES		**247,866**	525,542
EQUITY			
Share capital	14	**207,862**	215,578
Share premium		**-**	141,708
Statutory reserve		**337**	15,580
Fair value reserve		**(227)**	(262)
Foreign currency translation reserve		**(8,642)**	(6,112)
Retained earnings/(accumulated losses)		**4,153**	(213,964)
Total equity attributable to the shareholders of the parent (page 6)		**203,483**	152,528
Non-controlling interests		**31,683**	34,605
Non-controlling interests relating to assets held-for-sale	10	**-**	15,273
TOTAL EQUITY		**235,166**	202,406
TOTAL LIABILITIES AND EQUITY		**483,032**	727,948

The consolidated financial statements consisting of pages 50 to 90 were approved by the Board of Directors on 18 March 2012 and signed on its behalf by:

Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Note	31 December 2011	31 December 2010
Finance income		**9,687**	13,732
Finance expense		**(9,218)**	(19,227)
Net finance income/(expense)		**469**	(5,495)
Investment banking income/(loss)	15	**16,066**	(112,610)
Share of profit of associates	7	**6,444**	6,788
Other income		**3,105**	5,056
Total income/(loss)		**26,084**	(106,261)
Staff cost		**25,319**	41,173
Legal and professional expenses		**2,154**	10,192
Premises cost		**3,506**	3,216
Business development expenses		**1,478**	4,297
Depreciation		**2,157**	2,480
Other operating expenses		**7,008**	6,073
Total expenses		**41,622**	67,431
Loss for the period from continuing operations before taxation and impairment		**(15,538)**	(173,692)
Provision for taxation	16	**(1,800)**	(1,868)
Reversal of impairment and provisions/(charge for the year)	17	**4,010**	(53,936)
Gain on sale and profit for the year from assets held-for-sale and discontinued operations	10	**14,497**	-
Profit/(loss) for the period		**1,169**	(229,496)
Attributable to:			
Shareholders of the parent		**3,371**	(226,811)
Non-controlling interests		**(2,837)**	(2,685)
Non-controlling interests relating to assets held-for-sale		**635**	-
		1,169	(229,496)

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

2011	Attributable to the shareholders of the parent: Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Non-controlling interests relating to assets held-for-sale	Total equity
As at 1 January 2011	215,578	141,708	15,580	189	(6,112)	(215,004)	151,939	34,605	15,273	201,817
Impact of change in accounting policy (refer note 3b)	-	-	-	(451)	-	1,040	589	-	-	589
Restated balance at 1 January 2011	**215,578**	**141,708**	**15,580**	**(262)**	**(6,112)**	**(213,964)**	**152,528**	**34,605**	**15,273**	**202,406**
Profit/(loss) for the year	-	-	-	-	-	3,371	3,371	(2,837)	635	1,169
Foreign currency translation differences	-	-	-	-	(2,577)	-	(2,577)	(85)	-	(2,662)
Fair value changes	-	-	-	235	-	-	235	-	-	235
Transfer from fair value on sale	-	-	-	(79)	-	79	-	-	-	-
Share of changes in reserves of associates	-	-	-	(121)	47	-	(74)	-	-	(74)
Total recognised income and expense for the year	**-**	**-**	**-**	**35**	**(2,530)**	**3,450**	**955**	**(2,922)**	**635**	**(1,332)**
Transfer to statutory reserve	-	-	337	-	-	(337)	-	-	-	-
Conversion of subordinated murabaha (note 12)	50,000	-	-	-	-	-	50,000	-	-	50,000
Capital reduction (note 14)	(57,716)	(141,708)	(15,580)	-	-	215,004	-	-	-	-
Disposal of subsidiaries (note 10)	-	-	-	-	-	-	-	-	(15,908)	(15,908)
As at 31 December 2011	**207,862**	**-**	**337**	**(227)**	**(8,642)**	**4,153**	**203,483**	**31,683**	**-**	**235,166**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	Attributable to the shareholders of the parent									
2010	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings / (accumulated losses)	Total	Non-controlling interests	Non-controlling interests relating to assets held-for-sale	Total equity
As at 1 January 2010	215,578	141,708	15,580	10,280	(6,761)	3,324	379,709	37,321	6,622	423,652
Impact of change in accounting policy (refer note 3b)	-	-	-	(10,400)	-	10,400	-	-	-	-
Restated balance at 1 January 2010	215,578	141,708	15,580	(120)	(6,761)	13,724	379,709	37,321	6,622	423,652
Loss for the year	-	-	-	-	-	(226,811)	(226,811)	(2,685)	-	(229,496)
Foreign currency translation differences	-	-	-	-	649	-	649	(31)	-	618
Fair value changes	-	-	-	(1,019)	-	-	(1,019)	-	-	(1,019)
Share of changes in reserves of associates	-	-	-	877	-	(877)	-	-	-	-
Total recognised income and expense for the year	-	-	-	(142)	649	(227,688)	(227,181)	(2,716)	-	(229,897)
Net movement in non-controlling interest held-for-sale	-	-	-	-	-	-	-	-	8,651	8,651
As at 31 December 2010	215,578	141,708	15,580	(262)	(6,112)	(213,964)	152,528	34,605	15,273	202,406

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

	31 December 2011	31 December 2010
OPERATING ACTIVITES		
Profit/(loss) for the year	**1,169**	(229,496)
Adjustments for:		
Provision for taxation (zakat)	**1,800**	1,868
Gain on sale of investment securities	**(6,739)**	(4,874)
(Reversals)/impairment charge	**(4,010)**	53,936
Fair value loss on investment properties	**-**	11,458
Fair value changes in investment securities	**(591)**	118,597
Share of profit of associates	**(6,444)**	(6,788)
Profit from assets held-for-sale	**(14,497)**	-
Provision release	**(2,481)**	-
Depreciation and amortisation	**2,157**	2,480
Profit accrued on the subordinated murabaha	**-**	1,249
	(29,636)	(51,570)
Changes in:		
Financing receivables	**135,086**	(232,691)
Other assets	**(23,427)**	101,841
Due to financial and non-financial institutions	**(34,046)**	(127,443)
Other liabilities	**(6,718)**	(8,920)
Proceeds from sale of investment securities	**31,329**	53,685
Purchase of investment securities	**(34,619)**	(38,907)
Net cash generated from (used in) operating activities	**37,969**	(304,005)
INVESTING ACTIVITIES		
Purchase of equipment	**(66)**	(299)
Investments in associate	**(7,394)**	-
Purchase of assets held-for-sale	**-**	(20,144)
Disposal of assets held-for-sale	**60,417**	7,049
Net cash generated from (used in) investing activities	**52,957**	(13,394)
FINANCING ACTIVITIES		
Repayment of syndicated borrowing	**(128,273)**	-
Net cash used in financing activities	**(128,273)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(37,347)**	(317,399)
Effect of exchange rate changes on cash and cash equivalents	**(1,475)**	(76)
Cash and cash equivalents at the beginning of the year	**116,380**	433,855
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**77,558**	116,380
Cash and cash equivalents comprise:		
Cash and balances with banks	**11,081**	43,943
Placements with financial institutions	**66,477**	72,437
	77,558	116,380

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RESTRICTED INVESTMENT ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

2011	As at 1 January 2011	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2011
Wakala contract	-	23,602	758	(215)	(20,541)	3,604

2010	As at 1 January 2010	Deposit	Gross Income	Wakil Fee	Withdrawals	As at 31 December 2010
Wakala contract	240,132	78,929	4,931	(956)	(323,036)	-

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Bank Alkhair B.S.C. (c) (formerly Unicorn Investment Bank B.S.C.(c)) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 6h floor of Building No. 2304, Road No. 2830, Seef District 428, Manama, Kingdom of Bahrain.

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

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

During the year, the Bank changed its name from Unicorn Investment Bank BSC (c) to Bank Alkhair BSC (c). The subsidiaries of the Bank in Saudi Arabia, Turkey and Malaysia have been rebranded as Alkhair Capital Saudi Arabia, Alkhair Capital Turkey and Alkhair International Islamic Bank Malaysia Berhad.

Consolidated financial statements

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

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

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation	Principal activity
UIB Capital Inc.	100%	2004	USA	The main activity of UIB Capital Inc. was to monitor the performance of the acquired companies on behalf of the Bank and investors. The operations of UIB Inc. were closed in 2010 to focus on the Middle East and Levant regions.
Alkhair International Islamic Bank Malaysia Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license in 2007 by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy, asset management, underwriting and brokerage services.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia was granted a certificate of incorporation by the Saudi Arabia Capital Markets Authority in March 2009. Its principal activities are Asset Management, Corporate Finance & Investment Banking and Brokerage.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value and investment properties carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), this being the functional currency of the Group's operations.

Going concern

The Bank'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 foreseeable future. During the year, the paid up capital has been increased by US$ 50 million following the conversion of the subordinated murabaha (refer note 12). The management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, and accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 19.

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

(ii) Associates

Associates are those enterprises in which the Group holds, directly or indirectly, more than 20% of the voting power and exercises significant influence, but not control, over the financial and operating policies.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer to note 3 (d)).

If the equity accounting method is chosen for an associate, investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

2. BASIS OF PREPARATION (continued)

(ii) Associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment.

(iii) Transactions eliminated on consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/ new AAOIFI standards, Statement of Financial Accounting No.1 Conceptual framework for the financial reporting by Islamic financial institutions' (SFA 1) and FAS 25 'Investment in sukuk, shares and similar instruments' that are effective for annual reporting periods beginning 1 January 2011.

a) SFA 1: Conceptual framework for the financial reporting by Islamic financial institutions

The revised conceptual framework for Financial Reporting by Islamic financial Institutions was issued on 22 July 2010 and is effective from 1 January 2011 on a prospective basis and supersedes the previous SFA 1 and SFA 2.

The conceptual framework has been amended to primarily reflect the following:

- Widening the scope of the framework to a broader spectrum of entities rather than limiting it to only Islamic financial institutions;
- Clarify elements of financial statements and definitions of investment accounts;
- Provide overall criteria and framework for determination of on and off balance sheet accounts; and
- Changes in terminology and editorial amendments to provide more consistency in understanding of key concepts.

The amended framework introduces and emphasises the generally accepted concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as legal form. The adoption of the revised conceptual framework has not resulted in any material changes to the accounting policies and the consolidated financial statements of the Group.

b) FAS 25 'Investment in sukuk, shares and similar instruments'

FAS 25 was issued in July 2010 and replaced FAS 17 'Investments'. FAS 25 retains and simplifies the mixed measurement model and establishes two measurement categories for investments: amortised cost and fair value. The guidance in FAS 17 on 'investment in real estate' continues to apply. The new standard requires retroactive application.

The Group has adopted the revised FAS 25 on its required application date 1 January 2011. The retroactive adoption of this standard did not result in any material impact on the consolidated income statement and equity of the previous period.

On the date of application, the classification and categorization of investments has been reassessed based on the facts and circumstances on that date. The adoption of the standard resulted in the following re-categorisation of investment securities in the consolidated statement of financial position:

1 January 2010		Revised categorisation and new carrying value under FAS 25			
Previous categorisation	Original carrying value under FAS 17	Amortised costs	Fair value through equity	Fair value through income statement	Total
Fair value through income statement	198,109	-	-	198,109	198,109
Available-for-sale	49,890	15,661	34,229	-	49,890
	247,999	**15,661**	**34,229**	**198,109**	**247,999**

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) FAS 25 Investment in sukuk, shares and similar instruments (continued)

31 December 2010		Revised categorisation and new carrying value under FAS 25			
Previous categorisation	Original carrying value under FAS 17	Amortised costs	Fair value through equity	Fair value through income statement	Total
Fair value through income statement	96,128	-	-	96,128	96,128
Available-for-sale	26,285	14,074	12,800	-	26,874
	122,413	**14,074**	**12,800**	**96,128**	**123,002**

The retroactive adoption of the standard resulted in the following impact on the consolidated financial statements:

i. As a result of reclassifying debt-type investments designated as available-for-sale to investments carried at amortised cost, the fair value reserve and the fair value changes on such investments has been reversed for all periods presented.

ii. As per the Bank's previous accounting policy for investments designated at fair value through income statement, all unrealised fair value changes on such investments were transferred from retained earnings to the fair value reserve until disposal of the investment. On adoption of FAS 25, the unrealised fair value changes forming part of the fair value reserve attributable to investments designated at fair value through the income statement has been transferred from the fair value reserve to retained earnings for all periods presented.

c) Foreign currency transactions

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

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

Other group companies

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

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

d) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and where associates are accounted for under the equity accounting method. (note 2 (c)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment securities (continued)

Debt-type instruments:

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition to FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

Investments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments:

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and certain associate companies. (refer note 2 (c) (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at fair value through income statement are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment securities (continued)

(iii) Measurement (continued)

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

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

e) Financing receivables

Financing receivables comprise shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost.

f) Placements with financial institutions

These mainly comprise inter-bank placements made and received using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

g) Due to financial and non-financial institutions

This represents funds payable to financial and non-financial institutions on the principles of Murabaha and wakala. The amounts are stated at their amortised cost.

h) Impairment of assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Impairment of assets (continued)

Investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, 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 income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

i) Investment property

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

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

j) Equipment

Equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

k) Assets held-for-sale

i) Classification

The Group classifies non-current assets or disposal groups as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held for sale and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell. Once classified as held-for-sale, any equity accounted investee is no longer equity accounted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Assets held-for-sale (continued)

ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' are carried at fair value.

l) Restricted investment accounts

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

m) Recognition of income and expense

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

Income from investment banking services represent: advisory and placement fees, arrangement and underwriting fees, performance fees, structuring fees, dividend income, fair value gain/(loss) on investment securities, fair value gain/(loss) on investment properties, gain on sale of investment securities, and management fees. Income from services is recognised at the fair value of consideration received/receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction. (refer note 3 (d) for fair value gain/(loss) on investment securities)

Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

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

Finance income and expense is recognised on a time apportioned basis over the period of the contract based on effective profit rate.

n) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as an expense in income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

o) Earnings prohibited by Shari'ah

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Zakah

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

q) Provision for taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. Provision for taxation (zakat), computed in accordance with Saudi Arabia Tax and Zakat regulations, is accrued and charged to consolidated income statement.

r) Offsetting of financial instruments

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

s) Statutory reserve

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

t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

u) Segment reporting

A segment is a distinguishable component which engages its business activities or group of related activities, from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components), whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Group's segmental reporting is based on the following operating segments: Capital Markets and Treasury, Private Equity, Corporate Finance, Asset Management, Strategic Mergers and Acquisitions and other. Additional disclosures about each of these segments are shown in note 28.

v) Contingent liabilities and contingent assets

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

w) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

x) Leases

Payments under operating lease are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

y) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Cash and cash equivalents

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

aa) Critical accounting estimates and judgements

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

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification (note 3 (d)).

(ii) Special purpose entities

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

Estimations

(i) Fair value of financial instruments

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

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

– For investment that is actively traded in an active and liquid market, fair value is determined by reference to the quoted market price prevailing on the reporting date;
– For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
– Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 18.

(ii) Impairment of financing receivables

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Critical accounting estimates and judgements (continued)

Estimations (continued)

(iii) Investment property

The Group conducts valuation of its investment property periodically using external independent valuers. The fair value is determined based on the market value of the property through the comparable method, analysing the land rates in the vicinity for similar assumed zoning regulations. The Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of cash generating units

Cash generating includes the Group's investments in certain subsidiaries and investment in equity accounted associates that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 3 (h). For investment in associates with indicators of impairment, the recoverable amounts have been determined based on higher of fair value less costs to sell or value in use calculations.

Value in use for the investment in associate was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell certain cash generating units is based on indicative offer prices received by the Group.

4. CASH AND BALANCES WITH BANKS

	31 December 2011	31 December 2010
Cash on hand	**20**	15
Balances with banks	**11,061**	43,928
	11,081	43,943

5. FINANCING RECEIVABLES

	31 December 2011	31 December 2010
Gross financing receivables		
- Murabaha	**95,838**	147,004
- Wakala	**-**	89,023
Less: Provision for impairment	**-**	(6,614)
	95,838	229,413

Financing receivables comprise due from customers under murabaha/wakala financing contracts. The profit on these balances as of 31 December 2011 was equivalent to an average rate of 6.6% per annum (2010: 8.6% per annum).

Murabaha financing receivables are net of deferred profits of US$1.9 million (2010: US$3.0 million).

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

6. INVESTMENT SECURITIES

	31 December 2011	31 December 2010 (restated)
Equity type instruments:		
Fair value through income statement:		
- Quoted equity securities	**38,896**	28,067
- Unquoted equity securities*	**32,994**	34,599
- Unquoted funds*	**27,150**	27,394
- Quoted funds	**1,495**	6,068
	100,535	96,128
Fair value through equity:		
- Quoted equity securities	**-**	10,196
- Unquoted equity securities	**6,452**	2,604
	106,987	108,928
Debt type instruments:		
Amortised cost:		
- Sukuk	**23,396**	14,074
	130,383	123,002

*Unquoted equity securities and unquoted funds carried at fair value through income statement primarily comprise assets managed by the Group. These investments are carried at fair value determined based on valuation techniques.

During the year, the Group recognised a net fair value gain of US$0.6 miilion (31 December 2010: fair value loss of US$118.6 million) on these investments.

Investments carried at fair value through income statement include:

	At 1 January 2011	Additions during the year	Disposals during the year	Fair value changes	At 31 December 2011
Investment in associates	83,787	17,393	(4,769)	790	**97,201**
Quoted funds	6,072	-	(4,316)	(261)	**1,495**
Equity investments (< than 20% stake)	6,269	-	(4,492)	62	**1,839**
	96,128	17,393	(13,577)	591	**100,535**

*Unquoted equity securities at fair value through equity comprise investment in private equity managed by external investment managers. These include investment in an entity of US$1.5 million (2010: US$1.4 million) which is carried at cost less impairment allowances in the absence of a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs, sale of underlying assets or through initial public offerings.

During the year, the Group recognised an impairment allowance of US$2.8 million (31 December 2010: US$11.8 million) on its investments carried at FVTE.

7. INVESTMENTS IN ASSOCIATES

	31 December 2011	31 December 2010
Burj Bank Limited (formerly Dawood Islamic Bank Limited)	**21,335**	19,006
t'azur B.S.C. (c)	**9,515**	10,029
BFC Group Holdings Ltd.	**105,202**	96,810
	136,052	125,845
Less: Impairment on associates	**(21,100)**	(21,100)
	114,952	104,745

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

7. INVESTMENTS IN ASSOCIATES (continued)

The movement in investment in associates is given below:

	2011	2010
At 1 January	**104,745**	151,348
Acquisitions during the year	**7,393**	-
Share of profits of associates	**6,444**	6,788
Share of reserves of associates	**(1,070)**	772
Transferred to assets held-for-sale (note 10)	**(2,560)**	(33,063)
Impairment allowances	**-**	(21,100)
At 31 December	**114,952**	104,745

The Bank has 36.9% stake (2010: 37.74%) in Burj Bank Limited (formerly Dawood Islamic Bank Limited), an unlisted Islamic commercial bank in Pakistan. During the year, the Bank participated in the right issue to the extent of US$7.3million. The rights issue resulted in a dilution of the Bank's stake in BBL from 37.74% to 36.90%. The Bank has an active plan to sell 3.9% of its stake in the associate and accordingly, this has been classified as assets held-for-sale (refer to note 10).

As per the requirements of the State Bank of Pakistan (SBP), the minimum paid-up capital (net off accumulated losses) of Burj Bank Limited should be increased to PKR 10 billion, (approximately US$112 million) in a phased manner by 2012. As at 31 December 2011, the paid-up capital (net off accumulated losses) of Burj Bank Limited stood at PKR 5.8 billion, (approximately US$65 million). SBP has granted limited extension till 31 March 2012 for meeting the minimum capital requirements.

The Bank has a 25.86% stake (2010: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. The associate has a commitment to provide a qard hassan loan to the extent of the accumulated deficit of US$9.7 million at 31 December 2011. The Group's share of the commitment is US$2.5 million.

The Bank has 44.88% stake (2010: 44.88%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC was incorporated to acquire Bahrain Financing Company B.S.C. (c) in Bahrain, Bahrain Exchange Company W.L.L. in Kuwait and EZ Remit in the United Kingdom.

During the year, the Group recognised US$ Nil impairment on the investment in associates (2010: US$21.1 million).

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements):

	2011	2010
Assets	**614,865**	200,792
Liabilities	**(310,865)**	(82,409)
Revenue	**63,485**	85,546
Profit for the year	**12,600**	6,788

8. INVESTMENT PROPERTIES

Investment property comprises a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2011 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms. Based on the valuation, no fair value gain or loss was recognised during the year (2010: fair value loss of US$11.5 million).

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

9. OTHER ASSETS

	31 December 2011	31 December 2010
Deal related advances	**14,163**	770
Dividend receivable	**-**	2,037
Fees and expenses recoverable	**6,293**	5,397
Prepayments and advances	**1,662**	2,194
Receivable from sale of investment securities	**19,904**	-
Others	**5,298**	3,909
	47,320	14,307
Less: Provision for impairment		
Fee and expenses recoverable	**(5,000)**	(2,331)
Others	**(3,768)**	(1,307)
Dividend receivable	**-**	(2,037)
	38,552	8,632

10. ASSETS AND LIABILITIES HELD-FOR-SALE

Assets held-for-sale represents investment in an associate of US$2.5 million for which the Bank has active plans to sell in the foreseeable future (refer to note 7).

During the year, the Bank sold its investments in subsidiaries, Sun Well Services Inc and Victron Inc, which were classified as held-for-sale at 31 December 2010 resulting in a gain of US$2.7 million and US$8.1 million, respectively. In addition, the profit for the period from these investments was US$3.7 million (2010: Nil).

11. DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	31 December 2011	31 December 2010
Due to financial institutions	**143,178**	307,785
Due to non-financial institutions	**88,483**	86,195
	231,661	393,980

At 31 December 2010, due to financial institutions included US$127 million of syndicated financing facility that was repaid on 27 January 2011. The profit was payable biannually at a rate of 6 months LIBOR + 170 basis points. The balance pertains to interbank placements in the normal course of business. Due to non-financial institutions primarily comprise short-term (less than 1 year) deposits from corporate customers of the Group.

The profit on remaining due to financial institutions was equivalent to an average of 3.99% per annum (2010: 3.87% per annum).

The profit on due to non-financial institutions was equivalent to an average of 3.12% per annum (2010: 2.87% per annum).

12. SUBORDINATED MURABAHA

The Subordinated murabaha represents a US$50 million facility obtained from a related party in 2009 which was convertible at the discretion of the holder into ordinary shares of the Bank, by December 2015, at a mutually agreed price and subject to meeting the legal and regulatory requirements. During the year, the related party exercised their option to convert into ordinary shares of US$1 each (refer note 14).

13. OTHER LIABILITIES

	31 December 2011	31 December 2010
Accruals and other provisions	**1,120**	4,852
Restructuring provision	**1,710**	5,036
Deal-related payables	**4,919**	8,331
Staff-related payables	**3,105**	4,562
Trade and other payables	**5,351**	4,915
	16,205	27,696

14. SHARE CAPITAL

	31 December 2011	31 December 2010
186,070,234 (2010: 185,819,019) ordinary shares of US$1 each, issued against cash	**186,070**	185,819
20,371,807 (2010: 27,819,966) ordinary shares of US$1 each, issued in kind	**20,372**	27,820
1,419,873 (2010: 1,938,994) ordinary shares of US$1 each, granted to employees	**1,420**	1,939
As at 31 December 2011	**207,862**	**215,578**

	No. of shares (thousands)	Nominal value
At 1 January 2011	215,578	215,578
Shares issued on conversion of subordinated murabaha	50,000	50,000
Capital reduction during the year	(57,716)	(57,716)
As at 31 December 2011	**207,862**	**207,862**

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

- adjustment of accumulated losses of US$215 million to the extent of available balance in share premium and statutory reserve and the balance of US$57.72 million against the paid up share capital of the Bank; and
- converted the US$ 50 million subordinated murabaha into equity shares of US$1 each, (refer note 12).

15. INVESTMENT BANKING INCOME

	2011	2010
Advisory fees	**3,988**	3,801
Arrangement fees	**1,944**	4,344
Dividend income	**21**	1,149
Fair value gain/(loss) on investment securities	**591**	(118,597)
Fair value loss on investment property	**-**	(11,458)
Gain on sale of investment securities	**6,739**	4,874
Management fees	**2,783**	3,277
	16,066	(112,610)

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

16. PROVISION FOR TAXATION

Provision for taxation represents the tax from operations of Alkhair Capital Saudi Arabia, calculated in accordance with the Income Tax Regulations of the Kingdom of Saudi Arabia.

17. REVERSAL OF IMPAIRMENT AND OTHER PROVISIONS/(CHARGE)

	2011	2010
Impairment		
Investments carried at fair value through equity	**(2,837)**	(9,267)
Investments carried at amortised cost	**-**	(2,555)
Investment in associates	**-**	(21,100)
Goodwill	**-**	(1,964)
Financing receivables	**311**	(6,614)
Provisions		
Others	**6,536**	(12,436)
	4,010	(53,936)

Others represent reversal of provisions and other accruals written back.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments

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

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

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

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

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.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

18. 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:

Movements in level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
Investment securities carried at fair value through income statement	39,119	28,645	32,771	100,535
Investment securities carried at fair value through equity	-	5,000	-	5,000
	39,119	**33,645**	**32,771**	**105,535**

31 December 2010	Level 1	Level 2	Level 3	Total
Investment securities				
Investment securities carried at fair value through income statement	28,340	33,462	34,326	96,128
Investment securities carried at fair value through equity	10,196	1,212	-	11,408
	38,536	34,674	34,326	107,536

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2011	**Total gains recorded in income statement**	**Total gains recorded in equity**	**Purchases**	**Sales / transfers**	**At 31 December 2011**
Investments carried at fair value through:						
- income statement	34,326	2,702	-	300	(4,557)	32,771
- equity	-	-	-	-	-	-
	34,326	**2,702**	**-**	**300**	**(4,557)**	**32,771**

	At 1 January 2011	Total gains/ (losses) recorded in income statement	Total gains recorded in equity	Purchases	Sales / transfers	At 31 December 2010
Investments carried at fair value through:						
- income statement	105,960	(66,759)	-	5,000	(9,375)	34,326
- equity	-	-	-	-	-	-
	105,960	(66,759)	-	5,000	(9,375)	34,326

Gains or losses on level 3 financial instruments included in the consolidated income statement comprise:

31 December 2011	**Realised losses**	**Unrealised gains**	**Total**
Total gain included in income statement for the year	**-**	**2,702**	**2,702**

31 December 2010	Realised losses	Unrealised gains	Total
Total losses included in income statement for the year	(560)	(67,319)	(66,759)

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2011. In 2010, the Bank's management reassessed the basis for determining fair value for a real estate based investment and as a result, an investment carried at US$27.9 million was transferred from level 2 to level 1.

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

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

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2011		
Investment securities		
Investment securities carried at fair value through income statement	**32,771**	**1,639**
31 December 2010		
Investment securities		
Investment securities carried at fair value through income statement	34,326	1,716

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2011		
Investment securities carried at fair value through equity	**5,000**	**323**
31 December 2010		
Investment securities carried at fair value through equity	-	-

19. ASSETS UNDER MANAGEMENT

	31 December 2011	31 December 2010
Proprietary	**61,416**	67,126
Clients	**164,390**	203,460
	225,806	270,586

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

20. COMMITMENTS AND CONTINGENCIES

	31 December 2011	31 December 2010
Commitments to invest	**-**	1,137
Lease commitments	**4,698**	6,594
Guarantees	**3,292**	3,357
	7,990	11,088

21. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

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

	2011	2010
Short term employee benefits	**4,709**	7,110
Post-employment benefits	**264**	595
	4,973	**7,705**

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	2011				2010 (restated)			
	Associates	**Significant shareholders/ entities in which directors have interests**	**Senior management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities
Assets								
Financing receivables	**6,548**	**-**	**-**	**6,006**	6,543	-	-	6,005
Investment securities	**97,201**	**-**	**-**	**9,557**	83,787	-	-	32,276
Investment in associates	**114,952**	**-**	**-**	-	104,745	-	-	-
Other assets	**1,290**	**-**	**706**	**819**	2,252	-	277	1,732
Assets held-for-sale	**2,560**	**-**	**-**	**-**	-	-	-	120,923
Liabilities					-			
Due to financial and non-financial institutions	**31,321**	**-**	**-**	**2,615**	40,048	-	-	7,018
Subordinated Murabaha	**-**	**-**	**-**	**-**	-	-	-	51,249
Other liabilities	**-**	**825**	**792**	**66**	3,360	1,566	2,390	332

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

21. RELATED PARTY TRANSACTIONS (continued)

	2011				2010			
	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interests	Senior management	Other entities
Income/(expenses)								
Investment banking income	**2,716**	**-**	**-**	**243**	(79,141)	-	-	(11,274)
Net finance income/(expense)	**(1,018)**	**-**	**-**	**(282)**	(939)	-	-	(3,164)
Share of profit of associates	**6,444**	**-**	**-**	**-**	6,788	-	-	-
Other income	**-**	**1,469**	**-**	**914**	-	-	-	(1,237)
Reversals of impairment and provision /(charge)	**4,037**	**-**	**-**	**-**	(29,862)	-	-	(9,356)
Directors' and Shari'ah board remuneration and expenses	**-**	**(716)**	**-**	**(220)**	-	(712)	-	(421)

In 2010, the Bank and another related party entity mutually agreed to cancel investment banking fee mandates due to the Bank amounting to US$30 million, as the management are of the view that the services under these mandates were not provided by the Bank during 2010. This cancellation was ratified by the Bank's Board of Directors.

22. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to investment and credit risk, market risk, liquidity risk and operational risks.

– Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. Starting in 2010, Risk Management infrastructure was enhanced by the re-establishment of the risk management function for the handling of all risk policies, processes and infrastructures; the analysis of credit, investment and counterparty risk as well as the monitoring and controlling of exposures on a global basis.
– Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
– Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities are regularly reviewed. In the past year the Bank implemented a number of risk policies and is also reviewing its corporate governance arrangements with a view to strengthening corporate governance arrangements and complying with new corporate governance requirements.
– Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the board-approved risk framework, the Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. In 2010 the Board approved an enhanced Group Risk Management Framework that addresses risk governance at the Group level. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy. In 2011, the Board of Directors initiated a corporate governance review exercise encompassing review of corporate governance arrangements, committee memberships, corporate governance policies and procedures with a view to improving corporate governance and complying with new corporate governance requirements.

22. RISK MANAGEMENT (continued)

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities. In 2011 the Board of Directors established a board level Risk Committee to provide board risk management oversight in addition to executive management risk committee structures already in place.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board

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

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

Internal Audit and Independent Review

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

Group Asset and Liability Committee (ALCO)

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

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. With the establishment of the Board Risk Committee, the Chief Risk Officer's reporting lines were re-aligned through reporting to the Chief Executive Officer with a dotted line reporting to the Board Risk Committee. Risk Management conducts risk assessments of strategic developments, and business area plans, individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle including periodic valuation and reporting.

Treasury Activities

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

Capital Markets and Institutional Banking

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

22. RISK MANAGEMENT (continued)

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee.

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

- credit risk
- liquidity risk
- market risk
- operational risk

This information about the Group's exposure to each of the above risks, it's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 22 to 26 and 33.

23. CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

In order to strengthen the Bank's credit risk management processes through a rigorous analysis of the credit worthiness of both current and potential obligors, the Bank introduced Internal Credit Rating Models covering corporate entities, banking counterparties and real estate exposures. The ratings coming out of the rating models are used together with other supporting information on the obligor's creditworthiness when making credit decisions. The Internal credit rating models follow the same methodology as used by a major External Credit Rating Institution, thereby allowing for mapping of the Bank's ratings with ECAI ratings.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activities and other client groups in close cooperation with Risk Management and proposes limits for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

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

	Maximum exposure 2011	Maximum exposure 2010
Balances with banks	**11,061**	43,928
Placements with financial institutions	**66,477**	72,437
Financing receivables	**95,838**	229,413
Investment securities – Sukuk	**23,396**	14,074
Other assets	**35,477**	3,994
Guarantees	**3,292**	3,357
	235,541	367,203

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

23. CREDIT RISK (continued)

Risk Exposure Concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2011 was US$39.2 million (2010: US$60.9 million), relating to "placement with financial institution and financing receivables".

Geographical Exposure Distribution

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

	Total assets	Off-balance sheet	Total 2011	Total 2010
Region				
Bahrain	24,808	-	**24,808**	45,027
Other Middle East	111,672	-	**11,672**	231,036
North America	13,530	3,000	**16,530**	32,931
Asia Pacific	75,384	-	**75,384**	48,047
Europe	6,855	292	**7,147**	10,162
Total	232,249	3,292	**235,541**	367,203

Industry Sector Exposure

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

	Assets	Off-balance sheet	Total 2011	Total 2010
Industry Sector				
Banking and finance	108,213	292	**108,505**	137,761
Industrial	17,624	-	**17,624**	2,176
Real estate and construction	43,898	-	**43,898**	121,390
Technology	3,090	3,000	**6,090**	3,842
In-house funds	263	-	**263**	283
Trade	48,284	-	**48,284**	86,988
Government	2,732	-	**2,732**	-
Individual	8,145	-	**8,145**	14,763
Total	232,249	3,292	**235,541**	367,203

Collateral and other credit enhancements

The Group utilises collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

23. CREDIT RISK (continued)

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2011. Following is an analysis of credit quality by class of financial assets:

	2011				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairments/ provisions**	**Total**
Balances with banks	**11,061**	**-**	**-**	**-**	**11,061**
Placements with financial institutions	**66,477**	**-**	**-**	**-**	**66,477**
Financing receivables	**95,838**	**-**	**-**	**-**	**95,838**
Investment securities - Sukuk	**23,396**	**-**	**-**	**-**	**23,396**
Other assets	**35,250**	**227**	**8,768**	**(8,768)**	**35,477**
Guarantees	**3,292**	**-**	**-**	**-**	**3,292**
Total	**235,314**	**227**	**8,768**	**(8,768)**	**235,541**

Exposures that are past due but not impaired are either past due for less than 30 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	2010				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	43,928	-	-	-	43,928
Placements with financial institutions	72,437	-	-	-	72,437
Financing receivables	229,155	258	6,614	(6,614)	229,413
Investment securities - Sukuk	12,979	-	3,650	(2,555)	14,074
Other assets	3,925	69	5,675	(5,675)	3,994
Guarantees	3,357	-	-	-	3,357
Total	365,781	327	15,939	(14,844)	367,203

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

	2011			
	Less than 120 days	**Less than 365 days**	**More than 365 days**	**Total**
Other assets	11	99	117	227

	2010			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Financing receivables	235	23	-	258
Other assets	30	39	-	69

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

24. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

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

– The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.

– In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

– ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

– The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

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

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 2011					
Due to financial and non-financial Institutions	**192,134**	**41,261**	**-**	**233,395**	**231,661**
Other liabilities	**7,099**	**-**	**2,389**	**9,488**	**9,488**
Total financial liabilities	**199,233**	**41,261**	**2,389**	**242,883**	**241,149**

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2010					
Due to financial and non-financial Institutions	354,850	41,055	-	395,905	393,980
Subordinated Murabaha	733	3,549	62,467	66,749	51,249
Other liabilities	8,697	6,006	3,232	17,935	17,935
Total financial liabilities	364,280	50,610	65,699	480,589	463,164

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

	On demand	**3 to 12 months**	**Over 1 year**	**Carrying value**
31 December 2011				
Commitments	**-**	**2,325**	**2,373**	**4,698**
Guarantees	**3,292**	**-**	**-**	**3,292**
Total	**3,292**	**2,325**	**2,373**	**7,990**

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

24. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2010				
Commitments	1,137	1,827	4,767	7,731
Guarantees	3,357	-	-	3,357
Total	4,494	1,827	4,767	11,088

25. MARKET RISK MANAGEMENT

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

Market Risk: Non-trading

Profit rate risk

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

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

	2011			2010		
	Balance	**Change in profit rate (+/-)**	**Effect on net profit (+/-)**	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	**66,477**	**200**	**1,301**	72,437	200	1,347
Financing receivables	**95,838**	**200**	**1,556**	229,413	200	2,537
Investment securities - Sukuk	**23,396**	**200**	**14**	14,074	200	6
Liabilities						
Due to financial and non-financial institutions	**231,661**	**200**	**(3,795)**	315,924	200	(4,586)
Total			**(924)**			(696)

Currency risk

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

25. MARKET RISK MANAGEMENT (continued)

Currency risk (continued)

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

	2011			2010		
	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Currency						
Kuwaiti Dinar	**(12,275)**	**(2,455)**	**-**	(12,134)	(2,427)	-
Turkish Lira	**8,370**	**243**	**1,431**	15,399	1,157	1,923
Malaysian Ringgit	**2,588**	**-**	**518**	4,373	-	875
Euro	**(12)**	**(2)**	**-**	1,174	(7)	242
Jordanian Dinar	**38,868**	**7,774**	**-**	28,136	5,627	-
Sterling Pounds	**315**	**63**	**-**	212	42	-

Equity price risk

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

The effect on income and equity (as a result of a change in the fair value of equity instruments as at 31 December 2011) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$15.1 million and US$1.0 million, respectively (2010: US$14.4 million and US$3.9 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

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

The Group is not exposed to any significant prepayment risk.

26. OPERATIONAL RISK

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

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	31 December 2011							
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Total up to 1 year**	**Over 1 year**	**Undated**	**Total**
Assets								
Cash and balances with banks	**11,081**	**-**	**-**	**-**	**11,081**	**-**	**-**	**11,081**
Placements with financial institutions	**62,945**	**2,656**	**876**	**-**	**66,477**	**-**	**-**	**66,477**
Financing receivables	**9,224**	**19,760**	**19,110**	**47,744**	**95,838**	**-**	**-**	**95,838**
Investment securities	**-**	**-**	**11,646**	**29,202**	**40,848**	**89,535**	**-**	**130,383**
Investments in associates	**-**	**-**	**-**	**-**	**-**	**-**	**114,952**	**114,952**
Investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**17,706**	**17,706**
Other assets	**726**	**37,147**	**-**	**-**	**37,873**	**679**	**-**	**38,552**
Equipment	**-**	**-**	**-**	**-**	**-**	**-**	**5,483**	**5,483**
Assets held-for-sale	**-**	**2,560**	**-**	**-**	**2,560**	**-**	**-**	**2,560**
Total assets	**83,976**	**62,123**	**31,632**	**76,946**	**254,677**	**90,214**	**138,141**	**483,032**
Liabilities								
Due to financial and non-financial institutions	**68,065**	**123,100**	**38,682**	**1,814**	**231,661**	**-**	**-**	**231,661**
Subordinated Murabaha	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**33**	**7,066**	**-**	**6,717**	**13,816**	**2,389**	**-**	**16,205**
Liabilities held-for-sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**68,098**	**130,166**	**38,682**	**8,531**	**245,477**	**2,389**	**-**	**247,866**
Commitments	**3,292**	**362**	**362**	**1,601**	**5,617**	**2,373**	**-**	**7,990**
Net liquidity gap	**12,586**	**(68,405)**	**(7,412)**	**66,814**	**3,583**	**85,452**	**138,141**	**227,176**
Net cumulative gap	**12,586**	**(55,819)**	**(63,231)**	**3,583**	**3,583**	**89,035**	**227,176**	

	31 December 2010							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
Assets								
Cash and balances with banks	43,943	-	-	-	43,943	-	-	43,943
Placements with financial institutions	57,479	10,513	3,506	939	72,437	-	-	72,437
Financing receivables	10,049	88,299	84,013	30,000	212,361	17,052	-	229,413
Investment securities	6,404	5,783	9,234	47,159	68,580	53,833	-	122,413
Investments in associates	-	-	-	-	-	-	104,745	104,745
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	629	6,910	-	-	7,539	1,093	-	8,632
Equipment	-	-	-	-	-	-	7,147	7,147
Assets held-for-sale	-	120,923	-	-	120,923	-	-	120,923
Total assets	118,504	232,428	96,753	78,098	525,783	71,978	129,598	727,359
Liaiblities								
Due to financial and non-financial institutions	231,947	121,391	40,642	-	393,980	-	-	393,980
Subordinated Murabaha	-	1,249	-	-	1,249	50,000	-	51,249
Other liabilities	1,461	7,236	-	11,042	19,739	7,957	-	27,696
Liabilities held-for-sale	-	52,617	-	-	52,617	-	-	52,617
Total liabilities	233,408	182,493	40,642	11,042	467,585	57,957	-	525,542
Commitments	4,494	-	362	1,465	6,321	4,767	-	11,088
Net liquidity gap	(119,398)	49,935	55,749	65,591	51,877	9,254	129,598	190,729
Net cumulative gap	(119,398)	(69,463)	(13,714)	51,877	51,877	61,131	190,729	

28. SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8. (Note: There is no equivalent AAOIFI standard)

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

Capital Markets and Treasury

The Group's capital markets business is engaged in structuring, managing and placing financing, equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book.

The Group's treasury business provides Shari'ah compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.

Private Equity

The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.

Asset Management

The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.

Strategic Mergers and Acquisitions ("SM&A")

The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

Other

Other' comprises the central management, support functions and subsidiaries of the Group.

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

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

28. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2011						
	Capital Markets and Treasury	Private Equity	Asset Management	SM&A	Other	Elimination	Total
External revenue							
Net finance expense	2,050	(1,778)	(83)	(3,605)	3,885	-	469
Investment banking income	5,654	6,369	146	3,474	423	-	16,066
Share of profit of associates	-	-	-	6,444	-	-	6,444
Other income	54	226	(384)	152	3,057	-	3,105
Inter-segment income	-	-	405	-	65	(470)	-
Total income/(loss)	**7,758**	**4,817**	**84**	**6,465**	**7,430**	**(470)**	**26,084**
Total operating expenses	(2,590)	(1,625)	(293)	(1,746)	(35,368)	-	(41,622)
Reversal of impairment and provisions/ charge for the year	(2,527)	-	-	-	6,537	-	4,010
Profit from assets held-for-sale	-	14,497	-	-	-	-	14,497
Provision for taxation	-	-	-	-	(1,800)	-	(1,800)
Profit/(loss) for the year	**2,641**	**17,689**	**(209)**	**4,719**	**(23,201)**	**(470)**	**1,169**
Investment in associates	-	-	-	114,952	-	-	114,592
Capital expenditure	-	-	-	-	66	-	66
Segment assets	185,667	83,339	-	147,977	66,049	-	483,032
Segment liabilities	15,625	47,900	2,209	97,120	85,012	-	247,866

	For the year ended 31 December 2010 (restated)						
	Capital Markets and Treasury	Private Equity	Asset Management	SM&A	Other	Elimination	Total
External revenue							
Net finance expense	(1,067)	(2,633)	(524)	(1,259)	(12)	-	(5,495)
Investment banking loss	(2,864)	(85,237)	(391)	(16,290)	(7,828)	-	(112,610)
Share of profit of associates	-	4,122	-	2,666	-	-	6,788
Other income	726	1,511	-	-	2,819	-	5,056
Inter-segment income	1,042	634	-	77	624	(2,377)	-
Total income/(loss)	(2,163)	(81,603)	(915)	(14,806)	(4,397)	(2,377)	(106,261)
Total operating expenses	(4,832)	(1,941)	(2,394)	(4,958)	(53,306)	-	(67,431)
Impairments and provisions	(6,614)	(7,081)	(1,964)	(29,408)	(8,869)	-	(53,936)
Provision for taxation	-	-	-	-	(1,868)	-	(1,868)
Loss for the year	(13,609)	(90,625)	(5,273)	(49,172)	(68,440)	(2,377)	(229,496)
Investment in associates	-	-	-	104,745	-	-	104,745
Capital expenditure	-	-	-	-	299	-	299
Segment assets	313,730	178,772	5,855	132,694	96,897	-	727,948
Segment liabilities	127,465	240,709	37,456	89,952	29,960	-	525,542

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

28. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments .

31 December 2011	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	**2,288**	**14,086**	**1,976**	**3,031**	**4,703**	**26,084**
Net income/(loss)	**(20,635)**	**5,345**	**15,388**	**(602)**	**1,673**	**1,169**
Non-current assets*	**22,112**	**457**	**-**	**556**	**64**	**23,189**

31 December 2010 (restated)	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income/(loss)	(31,569)	(22,903)	(50,222)	(3,921)	2,354	(106,261)
Net income/(loss)	(74,243)	(87,261)	(52,485)	(9,789)	(5,718)	(229,496)
Non-current assets*	23,406	657	19	709	62	24,853

* includes equipment and investment property

29. SHARI'AH SUPERVISORY BOARD

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

30. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

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

31. SOCIAL RESPONSIBILITIES

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

32. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2011 was nil (2010: nil).

33. CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. CBB capital adequacy regulations are based on the principles of Basel II and IFSB capital adequacy guidelines.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, includes ordinary share capital, disclosed reserves including share premium, general reserves, legal/statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, includes interim retained profits reviewed by the auditors and an allowed portion profit equalisation reserve (PER) and investment risk reserves (IRR). As per CBB, the PER & IRR can be up to a maximum amount equal to the capital charge pertaining to 30% of the risk weighted assets financed by unrestricted investment accounts.

Certain limits are applied to elements of the capital base in line with regulatory requirements. Tier 1 capital should represent at least half of the total eligible capital, i.e., Tier 2 capital is limited to 100% of Tier 1 capital. The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to Prudential Consolidation and Deduction Requirements (PCD) Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation, pro-rata consolidation or deduction where the own controlling or significant minority stakes in regulated financial entities, insurance entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Bank has adopted the standardised approach for credit risk regulatory capital computation purposes and basic indicator approach for operational risk regulatory capital computation purposes under the CBB capital adequacy framework. The Bank does not have Basel II permissible credit risk mitigants against any of its credit exposures.

(AMOUNTS IN UNITED STATES DOLLARS THOUSANDS)

33. CAPITAL MANAGEMENT (continued)

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

	2011	2010
Regulatory capital base:		
Tier 1 capital	**122,960**	105,294
Tier 2 capital	**-**	17,364
Total regulatory capital	**122,960**	122,658
Risk-weighted assets	**568,630**	903,114
Tier 1 capital adequacy ratio	**21.62%**	11.66%
Total capital adequacy ratio	**21.62%**	13.58%

The Bank has complied with all externally imposed capital requirements throughout the year.

Capital allocation

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

34. COMPARATIVES

Certain prior period amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported profit or equity except to the extent of change in accounting policy due to adoption of new standards as described in notes 3 (a) and (b).