Elaf Bank B.S.C. (c)

SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ELAF BANK

In the Name of Allah, The Beneficent, The Merciful

To the Shareholders of ELAF Bank,

Assalam Alaykum Wa Rahmatul-Allah,

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and contracts relating to the transactions and applications introduced by ELAF Bank and its affiliates during **the year ending December 31, 2011**. We have also conducted our review to form an opinion as to whether ELAF Bank and its affiliates have complied with Shari'a rules and principles, and also with specific "fatwa" rulings, and guidelines issued by the Shari'a Supervisory Board.

We conducted our review directly, or through the Internal Shari'a Compliance Department, which included examining, on sample basis of each type of transactions, the relevant documentation and procedures adopted by ELAF Bank. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that ELAF Bank and its affiliates have not violated Islamic Shari'a rules and principles.

Our responsibility is restricted to provide an independent opinion, based on our review of the operations of ELAF Bank and its affiliates, and report to you. The management of ELAF Bank is responsible to ensure that the financial institution conducts its business in accordance with Islamic Shari'a rules and principles.

Based on the above, the Shari'a Supervisory Board discloses the following opinion:

A) the contracts, transactions and dealings entered into by ELAF Bank and its affiliates during **the year ending December 31, 2011**, which we have reviewed, are in compliance with Islamic Shari'a rules and principles;

B) the allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Shari'a Supervisory Board and in accordance with Islamic Shari'a rules and principles;

C) all earnings have been realized from sources or by means permitted by Islamic Shari'a rules and principles;

D) the calculation, and payment of Zakat is the responsibility of the shareholders.

We pray to Allah the Almighty to grant us all the success and straight-forwardness.

Dr. Abdul-Sattar Abou Ghuddah Chairman of Shari'a Board	Dr. Abdul-Aziz Al-Qassar Shari'a Board member	Sheikh Nizam Ya'aqubi Shari'a Board member

Place and Date: Manama, Sunday, January 15th, 2012.

ELAF BANK B.S.C. (C)
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors submit their report dealing with the financial performance of ELAF BANK B.S.C. (C) (the "Bank") and its subsidiaries (the "Group") for the year ended 31 December 2011, together with the audited financial statements of the Group for the year then ended.

CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

PRINCIPAL ACTIVITIES

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

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

FINANCIAL POSITION AND RESULTS

The financial position of the Group at 31 December 2011 and the results of its operations for the year then ended are set out in the accompanying consolidated financial statements.

DIVIDENDS AND DIRECTORS' REMUNERATION

For the year ended 31 December 2011, the Directors did not recommend to the Annual General Meeting to pay any dividend.

Further, the Directors recommend to the Annual General Meeting to pay a Directors' remuneration of US$ **451,668** for the year ended 31 December 2011 (2010: US$ 560,000).

DIRECTORS

The following are the Directors of the Board of the Bank as of 31 December 2011:

Mr. Paul Andrew Mercer (Chairman)
Mr. Isa Mohamed Isa Habib (Vice Chairman)
Mr. Jamal A Y J Al Saleem
Mr. Saeed A.Hadi M H Al Kayareen
Mr. Abdullah A M M Al Marzouq
Mr. Mohammed KH M S Al Adsani
Mr. Mohamad Ali Douaidy

DIRECTORS' INTERESTS

The number of shares held by Directors and their related parties at 31 December 2011 was nil (2010: nil).

AUDITORS

The auditors, Ernst & Young, have indicated their willingness to continue in office.

By order of the Board of Directors

Mr. Paul Mercer

Chairman

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ELAF BANK B.S.C. (c)

We have audited the accompanying consolidated statement of financial position of Elaf Bank B.S.C. (c) ("the Bank") and its subsidiaries ("the Group") as of 31 December 2011, and related consolidated statements of income, cash flows and changes in owners' equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Bank as of 31 December 2010, were audited by another auditor on which they have expressed an unqualified opinion, dated 9 March 2011.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). 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 consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by the AAOIFI.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ELAF BANK B.S.C. (c) (continued)

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors 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 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst + Young

19 March 2012
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	**31 December 2011 US$**	*Restated Audited 31 December 2010 US$*
ASSETS			
Cash and balances with banks	3	**2,354,933**	1,790,442
Mudaraba financing	4	**14,206,052**	9,526,864
Musharaka financing	5	**958,810**	-
Investment in ijarah asset	6	**7,650,409**	8,045,222
Murabaha receivable	7	**3,272,458**	15,102,108
Investment in securities	8	**109,957,281**	98,584,366
Investment in associate	9	**3,444,085**	3,444,085
Investment in real estate	10	**15,842,773**	19,803,466
Fixed assets	11	**1,566,186**	1,683,710
Other assets	12	**1,704,978**	1,429,350
TOTAL ASSETS		**160,957,965**	159,409,613
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Wakala payable		**4,543,500**	-
Other liabilities	13	**1,646,066**	776,754
Total liabilities		**6,189,566**	776,754
Owners' equity	14		
Share capital		**200,000,000**	200,000,000
Statutory reserve		**676,313**	676,313
Accumulated losses		**(45,011,717)**	(40,841,631)
Other reserves		**(896,197)**	(1,201,823)
Total owners' equity		**154,768,399**	158,632,859
TOTAL LIABILITIES AND OWNERS' EQUITY		**160,957,965**	159,409,613

Paul Mercer
Chairman

Isa Habib
Vice Chairman

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

		2011 US$	2010 US$
INCOME			
Profit from Islamic financing	15	**2,781,574**	4,128,885
Profit on Islamic financing		**(59,333)**	(103,570)
Net income on Islamic financing		**2,722,241**	4,025,315
Income from investment in securities	16	**6,979,459**	5,778,883
Income from investment banking services		**20,000**	53,960
Other income		**67,047**	20,936
Total income		**9,788,747**	9,879,094
EXPENSES			
Staff cost	17	**5,130,200**	4,691,668
Depreciation and amortisation	18	**1,110,599**	1,298,888
Other expenses	19	**2,829,350**	2,939,491
Total expenses		**9,070,149**	8,930,047
Net income before impairment, provision and unrealised re-measurement loss		**718,598**	949,047
Impairment and provision	20	**(927,991)**	(15,542,021)
Unrealised re-measurement loss	10	**(3,960,693)**	(5,555,683)
NET LOSS FOR THE YEAR		**(4,170,086)**	(20,148,657)

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 US$	2010 US$
OPERATING ACTIVITIES		
Net loss for the year	**(4,170,086)**	(20,148,657)
Adjustment for non cash items:		
Depreciation and amortisation	**1,110,599**	1,298,888
Gain on sale of investments	**(852,707)**	(623,689)
Net amortisation of discount and premium	**(1,433,016)**	(1,204,509)
Impairment and provision	**927,991**	15,542,021
Unrealised re-measurement loss	**3,960,693**	5,555,683
Operating (loss) profit before changes in operating assets and liabilities	**(456,526)**	419,737
Changes in operating assets and liabilities:		
Murabaha receivable	**11,829,650**	4,462,569
Musharaka financing	**(965,834)**	-
Other assets	**(275,628)**	(383,580)
Other liabilities	**869,312**	401,413
Net cash from operating activities	**11,000,974**	4,900,139
INVESTMENT ACTIVITIES		
Purchase of investment in securities	**(48,385,029)**	(41,187,532)
Proceeds from sale of investments	**38,682,496**	42,052,316
Purchase of investment in real estate	**-**	(657,361)
Purchase of equipment	**(598,262)**	(54,305)
Net cash (used in) from investing activities	**(10,300,795)**	153,118
FINANCING ACTIVITY		
Wakala payable	**4,543,500**	-
Net cash from financing activity	**4,543,500**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,243,679**	5,053,257
Cash and cash equivalents at 1 January	**11,317,306**	6,264,049
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**16,560,985**	11,317,306
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and balances with banks	**2,354,933**	1,790,442
Mudaraba financing with original maturity of 90 days or less	**14,206,052**	9,526,864
	16,560,985	11,317,306

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2011

				Other reserves			
	Share capital US$	*Statutory reserve US$*	*Accumulated losses US$*	*Foreign currency translation reserve US$*	*Investment fair value reserve US$*	*Total other reserves US$*	*Total owners' equity US$*
Balance at 1 January 2011	200,000,000	676,313	(40,841,631)	(614,004)	(587,819)	(1,201,823)	158,632,859
Net income for the year	-	-	(4,170,086)	-	-	-	(4,170,086)
Cumulative changes in fair values	-	-	-	-	442,642	442,642	442,642
Foreign currency translation on investments	-	-	-	(137,016)	-	(137,016)	(137,016)
Balance as at 31 December 2011	**200,000,000**	**676,313**	**(45,011,717)**	**(751,020)**	**(145,177)**	**(896,197)**	**154,768,399**
Balance at 1 January 2010	200,000,000	676,313	(20,692,974)	169,221	(625,419)	(456,198)	179,527,141
Changes due to adoption of FAS 25	-	-	-	-	(9,275)	(9,275)	(9,275)
Balance at 1 January 2010 (restated)	200,000,000	676,313	(20,692,974)	169,221	(634,694)	(465,473)	179,517,866
Net loss for the year	-	-	(20,148,657)	-	-	-	(20,148,657)
Cumulative changes in fair values	-	-	-	-	46,875	46,875	46,875
Foreign currency translation on investments	-	-	-	(327,310)	-	(327,310)	(327,310)
Foreign currency translation relating to associate	-	-	-	(455,915)	-	(455,915)	(455,915)
Balance as at 31 December 2010 (restated)	200,000,000	676,313	(40,841,631)	(614,004)	(587,819)	(1,201,823)	158,632,859

The attached notes 1 to 29 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Elaf Bank B.S.C. (c) ("the Bank"), is a closed shareholding company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain ("the CBB"). The Bank's registered office is at Seef district 428, street 2813, Addax Building 1006, 2 and 3 Floors, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank and its subsidiaries ("the Group") include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

The Bank carries out its business activities through its head office in the Kingdom of Bahrain and its branch in Malaysia. The branch was granted a license to perform Islamic banking business on 15 June 2011 under Islamic Banking Act 1983.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 19 March 2012.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for equity-type instruments through equity and investment in real estate that have been measured at fair value. The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated.

The Bank signed a Merger Protocol on 3 October 2011 to participate in a potential merger between the Bank, Capital Management House B.S.C. (c) and Capivest B.S.C. (c) ("merging entities"). As of the date of approval of the consolidated financial statements, the due diligence is in progress by an independent firm of accountants. Upon completion of the due diligence, management of the merging entities will start negotiations on the share swap rates. As the timing of completion of these activities is uncertain, the consolidated financial statements continue to be prepared on a going concern basis.

Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("the AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, and the CBB regulations (as contained in Volume II of CBB rulebook) and directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards including "Interim Financial Reporting," the Group uses the relevant International Financial Reporting Standards ("the IFRS") issued by International Accounting Standards Board ("the IASB").

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements:

Company	*Country of incorporation*	*Date of incorporation*	*(%) of ownership*
Subsidiaries			
Elaf Bahrain Real Estate Company B.S.C. (c)	Kingdom of Bahrain	22 July 2008	100%
Elaf Corporate Services Limited	British Virgin Islands	21 May 2008	100%
Sokouk Exchange Centre – Tadawul Holding W.L.L.	Kingdom of Bahrain	22 July 2008	100%

2.2 New accounting standard

The accounting policies adopted are consistent with those of the previous financial year, except for the following new FAS effective as of 1 January 2011:

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"
The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of FAS 25 had no effect on the classification and measurement of the Groups financial assets except for the restatement as disclosed in note 8.

2.3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Cash and cash equivalent
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and balances with banks with original maturities of 90 days or less.

b. Mudaraba financing
These comprise placements made in the form of mudaraba financing contracts. These are carried at the fair value of considration given less impairment..

c. Musharaka financing
Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

d. Investment in ijarah asset
Investments in ijarah assets are stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their lease terms.

e. Murabaha receivable
Murabaha receivables are stated at cost, net of deferred profit and provision. The Group considers the promise made in the murabaha to the purchase orderer as obligatory.

2 . ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

f. Investment in securities

Investments comprise equity-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and debt-type instruments at amortised cost.

Equity-type instruments at fair value through statement of income

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

These include all equity-type instruments that are not fair valued through statement of income. Subsequent to acquisition, these are re-measured at fair value with unrealised gains or losses recognised directly in owners' equity under "Investment fair value reserve" until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity is recognised in consolidated statement of income.

Instruments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

Debt-type instruments at amortised cost

These are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

g. Investment in associate

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Where there has been a change recognised directly in the equity of the associate. the Group recognises its share of any changes and discloses this when applicable, in the statement of changes in owners' equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. If 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. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h. Investment in real estate

All properties held for rental or for capital appreciation purposes, or both, are classified as investment in real estate. These are initially recognised at cost and subsequently re-measured at fair value with the resulting unrealized gains being recognised in the consolidated statement of changes in owners' equity under investment fair value reserves. Unrealized losses are recognised in equity to the extent of the available balance. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated statement of income under "provision".

i. Fixed assets

Fixed assets are stated at cost, net of accumulated depreciation and impairment, if any. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. Works in progress are not depreciated.

The calculation of depreciation and amortisation is on the following basis:

• Leasehold improvements	10 years
• Computer hardware and software	3 years
• Furniture and fixture	5 years
• Office and electric equipment	5 years
• Motor vehicles	4 years

Fixed assets owned by the bank for leasing purpose is also depreciated on the straight line method over its estimated useful life which is the term of the lease.

j. Fair values

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

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments or applying relevant valuation techniques including net present value of estimated future cash flows, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

k. Impairment of financial assets

The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity-type instruments at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity-type instruments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of income) is removed from owners' equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

Impairment losses on murabaha receivables and debt-type instruments at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortised cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

l. Wakala payable

These comprise placements received in the form of wakala contracts. Wakala payables are carried at their amortised cost.

m. Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

n. Revenue recognition

Profit from Islamic finances

Income on mudaraba is recognised when the right to receive payment is established or on distribution by the mudarib, where as losses are charged to income on declaration by the mudarib.

Income from murabaha receivable is recognised when the income is quantifiable and contractually determined at the commencement of the contract, the income is recognised proportionately over the period of the contract.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

n. Revenue recognition (continued)

Profit from Islamic finances (continued)
Income on musharaka financing is recognised when the right to receive payment is established. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Income from investments
Income from debt-type instruments at amortised cost (investment in Sukuk) is recognised on a time-apportioned basis using the effective profit method.

Dividend income from equity-type instruments at fair value through equity is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Income from investment advisory services
Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relations to the service being rendered and it is highly probable that the economic benefits from the transaction will flow to the Group.

Other income
Other income on investments is recognised when the right to receive payment is established.

o. Employee's end of service benefits
Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

p. Provisions
A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

q. Zakah
In accordance with the instructions of Shari'a Supervisory Board, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to the consolidated financial statements.

r. Fiduciary assets
The Bank provides fiduciary services that result in holding or investing of assets on behalf of its employees. Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the asset of the Bank.

As of 31 December 2011, assets held in fiduciary capacity by the bank amounted to US$ 123,328.

s. Social responsibility
The Group discharges its social responsibilities through donations to charitable causes and organization.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

t. Judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

Going concern

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as an equity-type instrument at fair value through statement of income, an equity-type instrument at fair value through a equity or debt-type instrument at amortised cost.

Fair value of unquoted investments at fair value through equity

Where the fair value of the Group's investment portfolio cannot be derived from an organised market, 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 is not available, judgment by management is required to establish fair values. The judgments include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

Impairment

The Group treats investments classified as fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In making this judgment, the Group evaluates, among other factors, normal volatility in share price and duration and the extent to which the fair value of quoted equities is less than its cost and the future cash flows and the discount factors for unquoted equities.

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

u. Derecognition

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

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

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

v. Offsetting financial instruments

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

w. Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

3 CASH AND BALANCES WITH BANKS

	2011	*2010*
	US$	*US$*
Cash	**2,723**	1,326
Balances with banks	**2,352,210**	1,789,116
	2,354,933	1,790,442

4 MUDARABA FINANCING

These represent mudaraba financing with financial institutions with an original maturity of less than 3 months.

5 MUSHARAKA FINANCING

	2011	*2010*
	US$	*US$*
Automotive financing	**965,834**	-
Less: Provision (note 20)	**(7,024)**	
	958,810	-

6 INVESTMENT IN IJARAH ASSETS

	2011 *US$*	*2010* *US$*
Cost:		
At 1 January	**8,616,025**	8,616,025
At 31 December	**8,616,025**	8,616,025
Depreciation:		
At 1 January	**570,803**	-
Charge for the year	**394,813**	570,803
At 31 December	**965,616**	570,803
Net book value:		
As at 31 December	**7,650,409**	8,045,222

The amount of future Ijarah instalments receivable as of 31 December 2011 was US$ 1,939,504 (2010: US$ 3,352,336).

7 MURABAHA RECEIVABLE

	2011 *US$*	*2010* *US$*
Gross murabaha receivable	**3,852,268**	15,835,712
Less: Deferred profits	**(579,810)**	(733,604)
	3,272,458	15,102,108

8 INVESTMENT IN SECURITIES

At 31 December 2011

	Amortised Cost US$	*Fair value through equity US$*	*Total US$*
Debt type			
Quoted sukuk	**52,928,477**	**-**	**52,928,477**
Unquoted sukuk	**22,583,381**	**-**	**22,583,381**
Equity type			
Quoted shares	**-**	**16,890,195**	**16,890,195**
Unquoted shares	**-**	**45,034,808**	**45,034,808**
Impairment	**-**	**(27,479,580)**	**(27,479,580)**
	75,511,858	**34,445,423**	**109,957,281**

8 INVESTMENT IN SECURITIES (continued)

At 31 December 2010

	Amortised Cost US$	*Fair value through equity US$*	*Restated Total US$*
Debt type			
Quoted sukuk	38,739,927	-	38,739,927
Unquoted sukuk	25,399,646	-	25,399,646
Equity type			
Quoted shares	-	16,054,111	16,054,111
Unquoted shares	-	44,949,295	44,949,295
Impairment	-	(26,558,613)	(26,558,613)
	64,139,573	34,444,793	98,584,366

RECLASSIFICATION OF INVESTMENTS

Adoption of FAS 25 resulted in the following adjustments to the carrying values of the investments as at 31 December 2010:

	Before adopting FAS 25			*On adopting FAS 25*	
	Held to maturity US$	*Available for sale US$*	*FAS 25 adjustment US$*	*Amortised Cost US$*	*Fair value through equity US$*
Debt type					
Quoted sukuk	9,500,000	29,768,786	(528,859)	38,739,927	-
Unquoted sukuk	22,306,452	3,655,113	(561,919)	25,399,646	-
Equity type					
Quoted shares	-	6,654,537	-	-	6,654,537
Unquoted shares	-	41,832,277	-	-	41,832,277
Impairment	-	(26,558,613)	-	-	(26,558,613)
	31,806,452	55,352,100	(1,090,778)	64,139,573	21,928,201

9 INVESTMENT IN ASSOCIATE

	2011 US$	*2010 US$*
At 1 January	**3,444,085**	4,944,085
Impairment (note 20)	**-**	(1,500,000)
	3,444,085	3,444,085

Summarised financial position of associate that has been equity accounted:

	2011 US$	*2010 US$*
Total assets	**21,160,250**	21,460,032
Total liabilities	**3,053,690**	2,994,819
Total revenues	**1,345,523**	294,666
Total net gain (loss)	**717,562**	(656,410)

9 INVESTMENT IN ASSOCIATE (continued)

Investment in associate comprise the following:

Name	*Country of incorporation*	*% holding*	*Date of incorporation*
Alpha Lease and Finance Holding Company B.S.C. (c)	Kingdom of Bahrain	30%	30 December 2007

10 INVESTMENT IN REAL ESTATE

	2011 US$	*2010 US$*
At 1 January	**19,803,466**	24,701,788
Additions	**-**	657,361
Unrealised re-measurement loss	**(3,960,693)**	(5,555,683)
	15,842,773	19,803,466

Investment in real estate represents two plots of land located in the Kingdom of Bahrain. The plots of land were valued at approximately US$ 21,123,708 as of 31 December 2011 (2010: US$ 25,084,403) based on valuation from independent external valuer. Due to the current market conditions and it's impact on real estate the management of the Bank has prudently used its judgment and applied a liquidity discount resulting in a fair value loss of US$ 3,960,693 for the year ended 31 December 2011 (2010: US$ 5,555,683).

11 FIXED ASSETS

	Lease hold improvements US$	*Computer hardware and software US$*	*Furniture and equipment US$*	*Vehicles US$*	*Total US$*
Cost:					
At 1 January 2010	1,114,593	1,536,261	235,320	150,716	3,036,890
Additions	1,114	52,392	799	-	54,305
At 31 December 2010	1,115,707	1,588,653	236,119	150,716	3,091,195
Additions	353,548	244,714	-	-	598,262
Disposal	-	-	-	-	-
At 31 December 2011	**1,469,255**	**1,833,367**	**236,119**	**150,716**	**3,689,457**
Depreciation and amortisation:					
At 1 January 2010	119,287	379,350	81,463	99,300	679,400
Charge for the year	111,485	531,124	47,797	37,679	728,085
At 31 December 2010	230,772	910,474	129,260	136,979	1,407,485
Charge for the year	111,571	543,497	46,981	13,737	715,786
At 31 December 2011	**342,343**	**1,453,971**	**176,241**	**150,716**	**2,123,271**
Net book balues:					
At 31 December 2011	**1,126,912**	**379,396**	**59,878**	**-**	**1,566,186**
At 31 December 2010	884,935	678,179	106,859	13,737	1,683,710

12 OTHER ASSETS

	2011 US$	2010 US$
Prepaid expenses	**190,866**	217,099
Income receivable	**1,315,168**	1,169,865
Advances to staff	**11,514**	10,805
Other receivable	**187,430**	31,581
	1,704,978	1,429,350

13 OTHER LIABILITIES

	2011 US$	2010 US$
Accounts payables	**121,991**	55,461
Provision for employee benefit	**789,121**	495,600
Directors' fee accrual	**538,482**	67,148
Other accruals	**196,472**	158,545
	1,646,066	776,754

14 OWNERS' EQUITY

(a) Share capital	2011 US$	2010 US$
Authorized:		
500,000,000 (2010: 500,000,000) ordinary shares at US$ 1 per share	**500,000,000**	500,000,000
Issued, subscribed and paid up capital:		
200,000,000 (2010: 200,000,000) shares at US$ 1 per share	**200,000,000**	200,000,000

(i) The Group has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Names and nationalities of the shareholders and the percentage of equity shares held are depicted in the table below:

		2011		2010	
	Country of incorporation	% of holding	Share capital	% of holding	Share capital
AREF Investment Group	Kuwait	**62.00%**	**124,000,000**	62.00%	124,000,000
Kuwait Investment Company	Kuwait	**11.86%**	**23,720,000**	11.86%	23,720,000
Sokouk Holding Company	Kuwait	**10.64%**	**21,280,000**	10.64%	21,280,000
Qatar Islamic Bank	Qatar	**10.00%**	**20,000,000**	10.00%	20,000,000
Islamic Corporation for the Development of the Private Sector	Saudi Arabia	**5.00%**	**10,000,000**	5.00%	10,000,000
International Leasing and Investment Company	Kuwait	**0.50%**	**1,000,000**	0.50%	1,000,000

14 OWNERS' EQUITY (continued)

(a) Share capital (continued)

(iii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 5%	1,000,000	1	0.50
5% up to less than 10%	10,000,000	1	5.00
10% up to less than	65,000,000	3	32.50
More than 50%	124,000,000	1	62.00
	200,000,000	6	100

(b) Reserves

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. No transfer has been made for the current year as there was a net loss for the year (2010: nil).

Investments fair value reserve

This represents cumulative unrealised fair value changes on investments. This reserve is transferred to the consolidated statement of income upon sale or impairment of the investments.

Foreign currency translation reserve

The Foreign currency translation reserve represents the net foreign exchange gain (loss) arising from translating the non- monetory assets and liabilities carried at fair value.

15 PROFIT FROM ISLAMIC FINANCING

	2011 US$	*2010 US$*
Income from mudaraba financing	**440,787**	449,304
Income from musharaka financing	**8,156**	-
Income from murabaha receivables	**919,796**	2,140,445
Income from ijarah asset	**1,412,835**	1,539,136
	2,781,574	4,128,885

16 INCOME FROM INVESTMENT IN SECURITIES

	2011 US$	*2010 US$*
Profit earned on debt-type instruments at amortised cost	**5,956,514**	4,972,900
Dividends on equity-type instruments at fair value through equity	**170,238**	182,294
Gain on disposal of debt-type instruments at amortised cost	**852,707**	623,689
	6,979,459	5,778,883

17 STAFF COST

	2011 US$	2010 US$
Salaries and benefits	**3,944,154**	3,883,289
Social insurance expenses	**165,342**	180,449
Other staff expenses	**1,020,704**	627,930
	5,130,200	4,691,668

18 DEPRECIATION AND AMORTISATION

	2011 US$	2010 US$
Depreciation and amortisation - equipment (note 11)	**715,786**	728,085
Depreciation - investment in ijarah asset (note 6)	**394,813**	570,803
	1,110,599	1,298,888

19 OTHER EXPENSES

	2011 US$	2010 US$
Professional expenses	**221,215**	398,418
Travel and accommodation	**371,544**	350,740
Premises Cost	**691,267**	595,507
Other administrative expenses	**1,545,324**	1,594,826
	2,829,350	2,939,491

20 IMPAIRMENT AND PROVISION

	2011 US$	2010 US$
Investment in securities	**920,967**	14,042,021
Investment in associate	**-**	1,500,000
Musharaka financing	**7,024**	-
	927,991	15,542,021

21 SEGMENT INFORMATION

a) Geographic sector

The geographical distribution of the Group's assets and liabilities is as follows:

2011	***Middle East US$***	***Europe US$***	***Africa US$***	***South East Asia US$***	***Total US$***
Assets					
Cash and balances with banks	2,354,933	-	-	-	2,354,933
Mudaraba financing	14,206,052	-	-	-	14,206,052
Musharaka financing	-	-	-	958,810	958,810
Investment in ijarah asset	-	-	-	7,650,409	7,650,409
Murabaha receivable	-	3,272,458	-	-	3,272,458
Investment in securities	67,057,576	22,762,166	20,137,539	-	109,957,281
Investment in associate	3,444,085	-	-	-	3,444,085
Investment in real estate	15,842,773	-	-	-	15,842,773
Fixed assets	1,566,186	-	-	-	1,566,186
Other assets	1,704,978	-	-	-	1,704,978
Total assets	106,176,583	26,034,624	20,137,539	8,609,219	160,957,965
Liabilities					
Wakala payable	-	-	-	4,543,500	4,543,500
Other liabilities	1,646,066	-	-	-	1,646,066
Total liabilities	1,646,066	-	-	4,543,500	6,189,566

2010	*Middle East US$*	*Europe US$*	*Africa US$*	*South East Asia US$*	*Restated Total US$*
Assets					
Cash and balances with banks	1,790,442	-	-	-	1,790,442
Mudaraba financing	9,526,864	-	-	-	9,526,864
Investment in ijarah asset	-	-	-	8,045,222	8,045,222
Murabaha receivable	1,366,608	13,735,500	-	-	15,102,108
Investment in securities	49,767,840	21,786,713	25,882,356	1,147,457	98,584,366
Investment in associate	3,444,085	-	-	-	3,444,085
Investment in real estate	19,803,466	-	-	-	19,803,466
Fixed assets	1,683,710	-	-	-	1,683,710
Other assets	1,429,350	-	-	-	1,429,350
Total assets	88,812,365	35,522,213	25,882,356	9,192,679	159,409,613
Liabilities					
Wakala payable	-	-	-	-	-
Other liabilities	776,754	-	-	-	776,754
Total liabilities	776,754	-	-	-	776,754

21 SEGMENTAL ANALYSIS (continued)

b) Industry sector

The industrial distribution of the Group's assets and liabilities is as follows:

2011	*Trading and manufacturing US$*	*Banks and financial institutions US$*	*Real Estate US$*	*Transport and others US$*	*Total US$*
Assets					
Cash and balances with banks	-	2,354,933	-	-	2,354,933
Mudaraba financing	-	14,206,052	-	-	14,206,052
Musharaka financing	-	958,810	-	-	958,810
Investment in ijarah asset	-	-	-	7,650,409	7,650,409
Murabaha receivable	-	-	3,272,458	-	3,272,458
Investment in securities	16,791,279	45,788,251	31,911,805	15,465,946	109,957,281
Investment in associate	-	3,444,085	-	-	3,444,085
Investment in real estate	-	-	15,842,773	-	15,842,773
Fixed assets	-	-	-	1,566,186	1,566,186
Other assets	-	-	-	1,704,978	1,704,978
Total assets	16,791,279	66,752,131	51,027,036	26,387,519	160,957,965
Liabilities					
Wakala payable	-	4,543,500	-	-	4,543,500
Other liabilities	-	-	-	1,646,066	1,646,066
Total liabilities	-	4,543,500	-	1,646,066	6,189,566

2010	*Trading and manufacturing US$*	*Banks and financial institutions US$*	*Real Estate US$*	*Transport and others US$*	*Restated Total US$*
Assets					
Cash and balances with banks	-	1,790,442	-	-	1,790,442
Mudaraba financing	-	9,526,864	-	-	9,526,864
Investment in ijarah asset	-	-	-	8,045,222	8,045,222
Murabaha receivable	-	1,366,608	13,735,500	-	15,102,108
Investment in securities	22,306,452	40,477,306	24,749,211	11,051,397	98,584,366
Investment in associate	-	3,444,085	-	-	3,444,085
Investment in real estate	-	-	19,803,466	-	19,803,466
Fixed assets	-	-	-	1,683,710	1,683,710
Other assets	-	-	-	1,429,350	1,429,350
Total assets	22,306,452	56,605,305	58,288,177	22,209,679	159,409,613
Liabilities					
Wakala payable	-	-	-	-	-
Other liabilities	-	-	-	776,754	776,754
Total liabilities	-	-	-	776,754	776,754

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board and executive management of the Group and/or entities over which they excercise control and/or significant influence.

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

	Associated companies US$	***Directors/ key management personnel Shari'a board members US$***	***Major shareholders / entities in which directors are interested US$***	***31 December 2011 US$***	*Associated companies US$*	*Directors/ key management personnel Shari'a board members US$*	*Major shareholders / entities in which directors are interested US$*	*31 December 2010 US$*
Assets								
Cash and balances with banks	-	-	1,990	1,990	-	-	1,990	1,990
Murabaha receivable	-	-	-	-	-	-	1,366,608	1,366,608
Investment in securities	-	-	9,500,000	9,500,000	-	-	9,500,000	9,500,000
Investment in associate	3,444,085	-	-	3,444,085	3,444,085	-	-	3,444,085
	3,444,085	-	9,501,990	12,946,075	3,444,085	-	10,868,598	14,312,683
Liabilities								
Other liabilities	-	700,648	-	700,648	-	113,140	-	113,140
	-	700,648	-	700,648	-	113,140	-	113,140

22 RELATED PARTY TRANSACTIONS (continued)

	Associated companies US$	***Directors/ key management personnel Shari'a board members US$***	***Major shareholders / entities in which directors are interested US$***	***31 December 2011 US$***	*Associated companies US$*	*Directors/ key management personnel Shari'a board members US$*	*Major shareholders / entities in which directors are interested US$*	*31 December 2010 US$*
Income								
Profit from Islamic financing	-	-	-	-	-	-	218,095	218,095
Income from investment in securities	-	-	226,152	226,152	-	-	238,040	238,040
Expenses								
Staff cost	-	3,382,758	-	3,382,758	-	2,745,545	-	2,745,545
Other expenses	-	579,394	-	579,394	-	744,661	-	744,661

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2011 US$	*2010 US$*
Short term employee benefits	**2,990,969**	2,485,340
Long term employee benefits	**391,789**	260,205

Director's remuneration for the year ended 31 December 2011 amounted to US$ 452 thousand (2010: US$ 560 thousand).

23 SHARI'A SUPERVISORY BOARD

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

24 MATURITY PROFILE

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The consolidated maturity profile at 31 December 2011 was as follows:

2011	*Up to 3 month US$*	*3 months to 1 year US$*	*1 to 5 years US$*	*5 to 10 years US$*	*No fixed maturity US$*	*Total US$*
Assets						
Cash and balances with banks	2,354,933	-	-	-	-	2,354,933
Mudaraba financing	14,206,052					14,206,052
Musharaka financing	-	-	461,612	-	497,198	958,810
Investment in ijarah asset	280,628	1,132,204	6,237,577	-	-	7,650,409
Murabaha receivable	440,000	1,980,000	852,458	-	-	3,272,458
Investment in securities	3,250,000	20,089,247	75,419,868	11,198,166	-	109,957,281
Investment in associate	-	-	-	-	3,444,085	3,444,085
Investment in real estate	-	-	-	-	15,842,773	15,842,773
Fixed assets	-	-	-	-	1,566,186	1,566,186
Other assets	-	1,588,575	-	-	116,403	1,704,978
Total assets	20,531,613	24,790,026	82,971,515	11,198,166	21,466,645	160,957,965
Liabilities						
Wakala payable	4,543,500	-	-	-	-	4,543,500
Other liabilities	-	1,646,066	-	-	-	1,646,066
Total liabilities	4,543,500	1,646,066	-	-	-	6,189,566
Commitments	3,012,567	97,666	156,239	-	-	3,266,472

24 MATURITY PROFILE (continued)

The consolidated maturity profile at 31 December 2010 was as follows:

2010	*Up to 3 month* US$	*3 months to 1 year* US$	*1 to 5 years* US$	*5 to 10 years* US$	*No fixed maturity* US$	*Restated Total* US$
Assets						
Cash and balances with banks	1,790,442	-	-	-	-	1,790,442
Mudaraba financing	9,526,864	-	-	-	-	9,526,864
Investment in ijarah asset	280,628	1,132,204	6,632,390	-	-	8,045,222
Murabaha receivable	1,366,608	13,735,500	-	-	-	15,102,108
Investment in securities	4,390,353	6,987,300	82,215,203	4,991,510	-	98,584,366
Investment in associate	-	-	-	-	3,444,085	3,444,085
Investment in real estate	-	-	-	-	19,803,466	19,803,466
Fixed assets	-	-	-	-	1,683,710	1,683,710
Other assets	-	1,429,350	-	-	-	1,429,350
Total assets	17,354,895	23,284,354	88,847,593	4,991,510	24,931,261	159,409,613
Liabilities						
Other liabilities	-	776,754	-	-	-	776,754
Total liabilities	-	776,754	-	-	-	776,754
Commitments	472,716	-	472,716	-	-	945,432

The Group does not have assets and liabilities with contractual maturities beyond 5 years.

25 COMMITMENTS

	2011 US$	*2010* US$
Commitment to finance	**2,500,000**	-
Operating lease commitments - expiring within one year	**610,233**	472,716
Operating lease commitments - expiring in one to three years	**156,239**	472,716
	3,266,472	945,432

26 RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- market risks;
- profit rate in banking book; and
- operational risk

The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

Furthermore, the Group has taken several initiatives to implement a comprehensive Basel II framework. These initiatives involve steps to identify all the risk areas that it manages and has particularly strengthened its risk management policies and procedures.

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

Risk Management and Governance Structure

Board of Directors
The Board of Directors of the Group has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Group.

Audit Committee
The mandate of the Audit Committee requires it to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices. The committee is responsible to assist the Board in its oversight of (i) the integrity and reporting of the Group's quarterly and annual consolidated financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Group's internal and external auditors. The Committee also reviews the activities and performance of the internal audit function.

Risk Committee
The Risk Committee ("RC") is a sub-committee of the Board of Directors and assists the Board in fulfilling its oversight responsibilities with regards to the development of risk management framework across all spectrums of business and operational activities conducted by the Group. The mandate of this committee is to develop and implement risk management strategies and policies. The committee is also responsible for the assessment of the efficiency of overall risk management function of the Group and the compliance with regulatory requirements relating to risk management. The committee also ensures the transparency and timeliness of internal and external disclosures on risk matters.

26 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

Shari'a Supervisory Board
The Group's compliance with Shari'a principles is overseen by an external and independent Shari'a Supervisory Board, fully supported by the Group's internal Shari'a and other departments. The Shari'a department is responsible for ensuring that there is an ongoing process of reviewing and auditing for Shari'a compliance in accordance with AAOIFI standards for existing and new investments. The Shari'a Board ensures that all investments undertaken by the lines of business are structured in such a manner that investments comply strictly with Shari'a principles.

Asset and Liability Committee
The Asset and Liability Committee ("ALCO") establishes policy and objectives for the asset and liability management of the Group's balance sheet in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flows, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's balance sheet both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

Investment, Credit & Risk Committee
The Investment Credit & Risk Committee ("ICRC") comprises the CEO and the Heads of Risk Management, Investment Banking, Treasury Capital Markets and Legal & Compliance. In addition to facilitating the credit and investment decisions, the ICRC's mission is to establish and maintain a risk management framework throughout the Group to best manage Elaf's shareholders and client interests. Its mandate is to identify, assess and measure risks arising from the Group's activities, and to define the appropriate course of action to mitigate or manage them.

Risk Management Department
The Risk Management Department ("RMD") is responsible for implementing and maintaining risk related policies & procedures to ensure an independent control processes. It provides oversight compliance with risk principles, policies and limits across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures complete capture of the risks in risk measurement and reporting systems.

Internal Audit
Internal Audit is responsible for carrying out a risk-based program of work designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions as well as that of controls operated by the business units. The Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

Risk Management and Reporting Structure
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. RC reviews and recommends the limits, suggested by the ICRC to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits set by the ICRC. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Chief Executive Officer and all other relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

26 RISK MANAGEMENT (continued)

(a) Credit Risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Being a wholesale investment bank, the Group is involved in investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Shari'a Board. Credit risk arises largely through short-term placements of excess cash through Mudaraba contracts in a conservative manner.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

Investment risk is a major component of the Group's overall risk profile. The Group seeks to manage its investment risks through each stage of the investment process, including deal sourcing, acquisition, post investment monitoring.

The Board has delegated responsibility for the management of investment and credit risk to its ICRC. ICRC is the highest management-level authority on all investment exposures. The overall role of ICRC is to facilitate the investment business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board or its designated RC. Prior to funding an investment, and regardless of its size, the ICRC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

Day-to-day management of the Group's investments is overseen by Investment Banking and Treasury Capital Markets Division. Additionally, the ALCO reviews all investments from the perspective of the Group's financial position.

The RMD regularly monitors the level of risk within the investment portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that Elaf maintains appropriate asset diversification by geography, industry and investment type.

Maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure net of any impairment provision, without taking into account any collateral held and other credit mitigants.

	Maximum exposure	
		Restated
	2011	*2010*
	US$	*US$*
Balances with banks	**2,352,210**	1,789,116
Mudaraba financing	**14,206,052**	9,526,864
Musharaka financing	**958,810**	-
Investment in ijarah asset	**7,650,409**	8,045,222
Murabaha receivable	**3,272,458**	15,102,108
Investment in securities	**75,511,858**	64,139,573
Other assets	**1,514,112**	1,212,251
	105,465,909	99,815,134

26 RISK MANAGEMENT (continued)

(a) Credit Risk (continued)

Concentration risk
Concentration of risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economic, political or other conditions. The Group seeks to manage the concentration of risk by establishing and constantly monitoring geographic and industry wise concentration. The Group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. The geographic and industry wise distribution of assets and liabilities are set out in note 21.

(b) Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks which have extended a committed short term financing line to the Group. The Treasury provides a monthly report to the ALCO regarding the dependability and reliability of these banks. Treasury also monitors the market conditions and generates watch reports which would monitor the spreads and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

The asset and liability maturity profile shown in note 24 is based on management's assessment of the Group's right and ability to liquidate these instruments based on their underlying liquidity characteristics.

(c) Market Risk
Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group does not have a trading portfolio and hence is not exposed to market risk in relation to such instruments. The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure in the banking book.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the Group are in US Dollars. However, in the normal course of business certain investments and other financial assets and liabilities are in other currencies and give rise to currency risk.

26 RISK MANAGEMENT (continued)

(c) Market Risk (continued)

Currency risk (continued)
Positions are monitored regularly to ensure that they are maintained within established limits and guidelines. The Group had the following net exposures denominated in foreign currencies as at 31 December:

Foreign currency	*2011 US$*	*2010 US$*
Kuwaiti Dinar	**8,443,488**	9,616,470
Sudanese Pound	**3,287,180**	3,516,823
UAE Dirham	**8,236,874**	4,592,791
UK Sterling	**21,762,204**	21,786,713
	41,729,746	39,512,797

The following table demonstrates the sensitivity to a reasonably possible movement of currency rates against the US$ (functional and reporting currency) based on the above positions as on 31 December, with all other variables held constant.

Foreign currency	*Change in exchange rate (+/-) %*	*2011 Effect on net income/ equity (+/-) US$*	*2010 Effect on net income/ equity (+/-) US$*
Kuwaiti Dinar	**10%**	**844,349**	961,647
Sudanese Pound	**10%**	**328,718**	351,682
UAE Dirham	**10%**	**823,687**	459,279
UK Sterling	**10%**	**2,176,220**	2,178,671

Equity price risk
Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Bank has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2011, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 221 thousand (2010: US$ 179 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Bank also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2011, a change in the valuation of 5% would change the value of these investments by plus or minus US$ 1,502 thousand (2010: US$ 1,543 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk
Prepayment risk is the risk that the Bank will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Bank is not exposed to any significant prepayment risk.

26 RISK MANAGEMENT (continued)

(d) Profit rate risk in banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. A summary of the Group's profit rate gap position is as follows:

2011	*Up to 3 Month US$*	*3 months to 1 year US$*	*1 to 5 years US$*	*Above 5 Years US$*	*Total US$*
Assets					
Mudaraba financing	14,206,052	-	-	-	14,206,052
Murabaha receivable	440,000	1,980,000	852,458	-	3,272,458
Investment in securities	-	-	11,319,989	8,500,000	19,819,989
Total profit rate sensitive assets	14,646,052	1,980,000	12,172,447	8,500,000	37,298,499
Liabilities					
Wakala payable	4,543,500	-	-	-	4,543,500
Total profit rate sensitive liabilities	4,543,500	-	-	-	4,543,500
Profit rate sensitivity gap	10,102,552	1,980,000	12,172,447	8,500,000	32,754,999

2010	*Up to 3 Month US$*	*3 months to 1 year US$*	*1 to 5 years US$*	*Above 5 Years US$*	*Total US$*
Assets					
Mudaraba financing	9,526,864	-	-	-	9,526,864
Murabaha receivable	-	13,735,500	-	-	13,735,500
Investment in securities	-	-	-	9,500,000	9,500,000
Total profit rate sensitive assets	9,526,864	13,735,500	-	9,500,000	32,762,364
Liabilities					
Wakala payable	-	-	-	-	-
Total profit rate sensitive liabilities	-	-	-	-	-
Profit rate sensitivity gap	9,526,864	13,735,500	-	9,500,000	32,762,364

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position), would be an increase (decrease) of profit by US$ 655 thousand (2010:US$ 655 thousand).

(e) Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26 RISK MANAGEMENT (continued)

(e) Operational Risk (continued)

Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by Central Bank of Bahrain based on Basel II principles related to operational risk management. During the year 2011 the Group has undertaken its annual RCSA exercise to identify critical processes, establish procedure necessary for measuring operational risk and enhance its internal controls related to critical processes.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to reestablish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing fair values of financial assets by

Level 1: quoted (unadjusted) prices in active markets for identical assets;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

2011	***Level 1*** ***US$***	***Level 2*** ***US$***	***Level 3*** ***US$***	***Total*** ***US$***
Quoted shares	**4,411,988**	**-**	**-**	**4,411,988**
Unquoted shares	**-**	**-**	**30,033,435**	**30,033,435**
	4,411,988	**-**	**30,033,435**	**34,445,423**

2010	*Level 1* *US$*	*Level 2* *US$*	*Level 3* *US$*	*Restated* *Total* *US$*
Quoted shares	3,575,904	-	-	3,575,904
Unquoted shares	-	-	30,868,889	30,868,889
	3,575,904	-	30,868,889	34,444,793

28 EARNINGS PROHIBITED BY SHARI'A

Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a supervisory Board.

29 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such reclassification did not affect previously reported consolidated statement of income or consolidated owners' equity, except as mentioned in note 8.