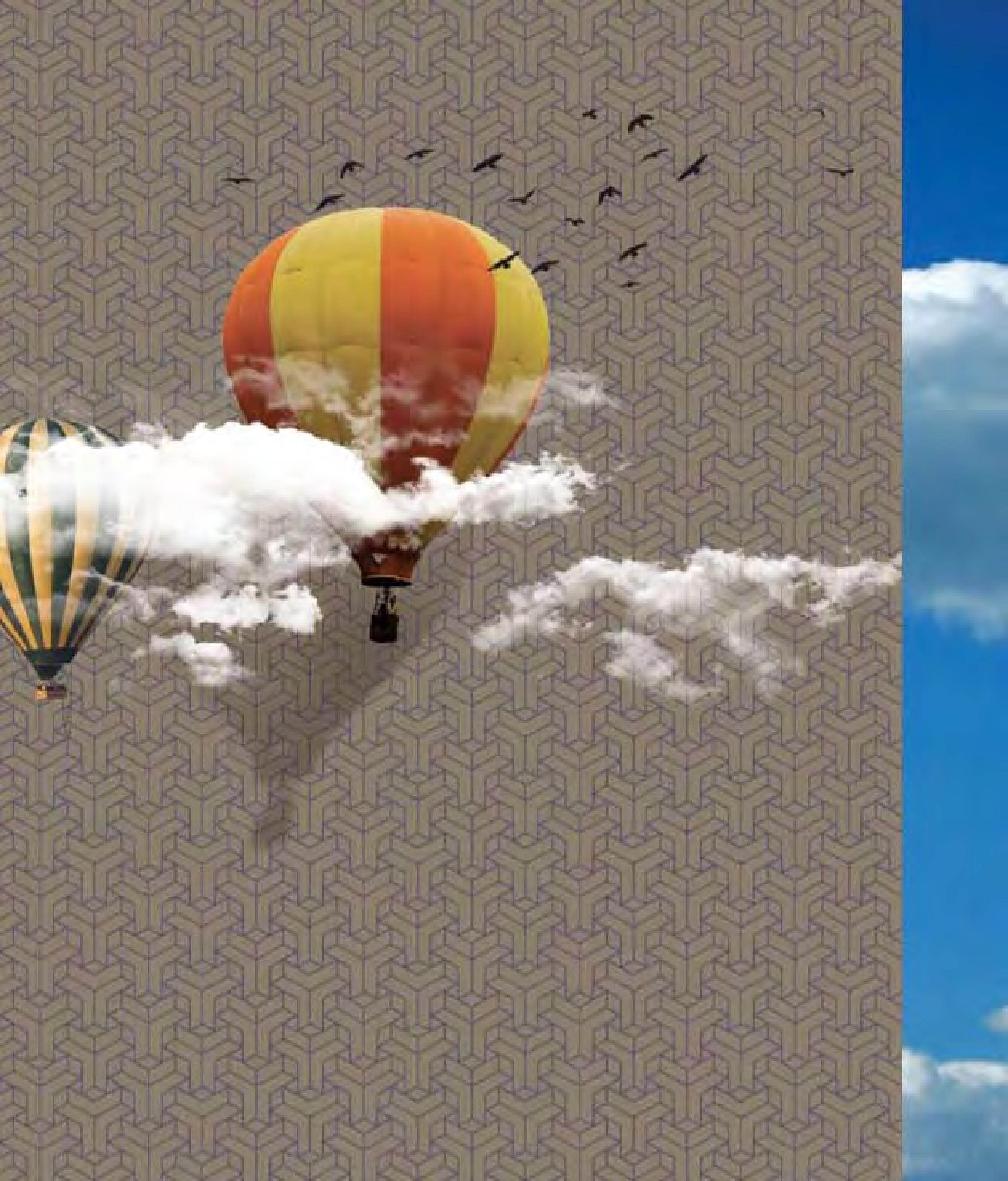
THE ITHMAAR

PARADOX

The paradoxical journey of Ithmaar Bank in 2010... A Profit in the Loss... Short-Term Steps are Long-Term Leaps... The Purer our Islamic Banking precepts, the more relevant and acceptable Ithmaar becomes for all peoples and all times...

Annual Report 2010

بنـــك الإثمـار
Ithmaar Bank



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*When an Islamic Retail Bank says it creates space and opportunity within the universe for **all** peoples of **all** persuasions to enjoy sharing in its enterprise...it's paradoxical! Welcome to the Ithmaar Paradox! Our cover illustration depicts people in all their diversity enjoying their own space...created for them by Ithmaar...and this visual paradoxical theme flows through the entire report.*

Paradox - From the Latin – paradoxum; Greek – paradoxon... Something that is seemingly contradictory or opposed to common sense – yet is perhaps true.

Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain. Formerly an investment bank, Ithmaar Bank B.S.C. completed a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. It is a publicly held company listed on the Bahrain Bourse and the Kuwait Stock Exchange; and is the second largest capitalised Islamic Bank on the Bahrain Bourse.

OUR VISION

A trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development.

OUR MISSION

To be the preferred Bank for our customers, counterparties and strategic partners by creating value through innovation.

These include: retail and commercial banking, asset management, investment and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing, and real estate development.

OUR VALUES

- Comply with Sharia principles
- Honesty, integrity and objectivity in all our relationships
- Market and customer focused
- Continuous improvement, creativity, innovation and willingness to bring about changes
- Active role in community

Snapshots of an Islamic Retail Bank

Highlights of our revolutionary transformation that commenced in the year under review are captured here. The products and services are fully Sharia compliant. They epitomise the stepping stones of our new course. And in their development and ever widening portfolio, will lie the success of Ithmaar Bank in the years ahead. For now...we've made a strong start!

Poised to grow

The brand has undergone a complete metamorphosis

through greater convenience

Bahrain's pioneer in mobile banking. Mobile phone penetration in Bahrain is over 100%

an expanding network

multiple channels, 11 branches,
28 ATMs... and growing

innovative new products

launch of 'Thimaar Saving' accounts
was an instant success

Snapshots of an Islamic Retail Bank

new channels

sophisticated e-channels and a full service call centre

great partnerships

strong alliances with top global brands

and the human touch

a team of passionate people eager to serve

Financial Highlights

	2010**	2009** (Restated)	2008	2007	2006 (Restated)
Net profit/(loss) (US$ 000)	**(139,612)**	(251,508)	85,162	188,310	181,050
Net profit/(loss) attributable to shareholders (US$ 000)	**(150,149)**	(247,415)	22,168	102,755	167,558
Total equity attributable to shareholders (US$ 000)	**654,016**	711,435	923,909	1,087,808	792,093
Book value per share (US cents)	**24**	31	44	51	56
Earnings per share (US cents)	**(6)**	(11)	1	6	11
Total assets (US$ 000)	**6,743,569**	6,105,934	5,380,426	4,078,789	3,318,755
Funds under management (restricted and unrestricted investment accounts) (US$ 000)	**2,966,362**	2,206,461	1,991,673	1,723,814	1,059,937
Return on average shareholders' equity	**-21.99%**	-30.26%	2.20%	10.93%	32.24%
Return on average assets	**-2.17%**	-4.13%	1.80%	5.09%	9.63%
Return on average paid in capital	**-24.22%**	-45.12%	4.16%	23.07%	66.55%
Cost to operating income ratio	**76.10%**	139.31%	51.51%	41.27%	42.10%
Cash dividends (US$ 000)	**–**	–	–	53,747	47,520
Cash dividends per share (US cents)	**–**	–	–	2.5	3.38
Stock dividends	**–**	–	10%	20%	–
Capital adequacy ratio*	**13.20%**	12.77%	14.41%	18.63%	29.52%
Market price per share (US cents)	**12.5**	24	26	58	58
Price earnings multiple	**–**	–	27	10	5
Market price per share/Book value per share	**0.51**	0.77	0.59	1.15	1.03

* Capital adequacy ratio from 2007 onwards is under Basel II regulations, whereas for previous years it was calculated under Basel I regulations.

** Years 2010 and 2009 are based on the AAOIFI framework, while 2008 and earlier are based on IFRS.

A Candid Letter

> The cornerstone of this strategy is the new focus on Islamic retail banking as our core business

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We have good reasons to be happy with our performance in 2010. We returned to profitability, posting a consolidated net income before provisions and overseas taxation of US$51.4 million; in sharp contrast to a loss of US$44.0 million in the previous year. Nevertheless, the fact that we are reporting a loss, after all the significant achievements of the year, is a major disappointment to us. We charged a net sum of US$197.4 million as impairment provisions, a significant portion of which was for investment portfolios which were estimated on a conservative basis. Hence the resulting net loss of US$150.1 million attributable to the shareholders of the Bank.

REPORTING WITH CANDOUR

This Annual Report has been structured and presented in a unique manner to bring out with candour our story of 2010. The underpinnings of our candid approach, as would be seen throughout this Annual Report, is one of great optimism, out-of-the-box thought, renewed energy, and passionate execution. These are the very sentiments and attitudes that are driving your Bank forward. This year we have also made an attempt to elevate the overall standard of our reporting to bring it in line with best practices; as we strengthen every corner of your Bank including governance policies and practices and investor relations. From Chairman to the staff at the teller, everyone is on a single strategic path. It is in this spirit that we are addressing a joint message to you. Our evaluation in terms of accomplishments and shortcomings during the year under review and our progress into the future, consist of an integrated viewpoint. These have been explained in detail in the chapters that follow. Thus, we will limit this letter to the bigger picture so that the salient points are not diluted in the detail.

BUSINESS TRANSFORMATION

2010 was a year of transformation. Your Bank transformed from an institution predominantly focused on investments and asset management to one focused on Islamic retail banking. Ithmaar Bank B.S.C., hitherto an investment bank, is now a licensed Islamic retail bank. This is the result of Ithmaar Bank completing the comprehensive reorganisation with its then wholly-owned subsidiary Shamil Bank of Bahrain, in April 2010.

A STRATEGIC FOCUS

Following a critical review of the Bank, we developed a comprehensive strategy for the next three years. The cornerstone of this strategy is the new focus on Islamic retail banking as our core business. Stemming from this strategy was the need to reallocate assets and transfer them from their previous positions to our core business. Herein was our first challenge: to divest our portfolio of businesses and investments that have become 'non-core' in the new scheme of things.

DIVESTMENTS & CONVERSIONS

We have enlisted the support of globally renowned institutions who are experts in such top level divestments to augment our own capabilities in this area. Progress in this direction is underway, although we would like to see it gather more momentum in the ensuing year. Added to this challenge was the need to convert certain non-Sharia compliant assets and liabilities to Sharia compliant ones. We prepared a separate plan for this conversion, the implementation of which is very much underway and on target.

KEY CHALLENGES →

Liquidity was another major challenge, as it was for many financial institutions in the region. This was tackled in a two-pronged manner. On the one hand, we employed an array of actions such as raising new funds, strengthening our links with financial institutions to raise interbank funds, and restructuring the tenor of certain major liabilities to longer terms. These efforts have all been very successful. On the other hand, we also vigorously sought to increase our retail customer base; launched a unique savings product which drew in a sizable number of new customers as well as deposits; and strengthened our staff and systems to support the aggressive deposit mobilisation drive. We are happy to report that as a result of these efforts, Ithmaar ended the year in a much stronger liquidity position than it was at the beginning of the year.

Capital adequacy ratio stands at 13.2 percent. We are nevertheless focusing attention on improving this metric to higher levels of comfort, not only to strengthen the stability of the Bank but also to create greater freedom for future business expansion. In this respect, it is heartening to note the successful rights issue during the year under review which brought in US$103 million to the capital base.

REORGANISING INTERNALLY →

Although we are successfully overcoming the above challenges, much management time and effort, as well as Board oversight, continues to be devoted towards them. Nevertheless, these must not overshadow the great strides that we have made. Key among them is our successful management of the transformation into a fully-fledged Islamic retail bank. The new retail focus necessitated a new organisation structure and new talent. We acted swiftly and appointed two General Managers to oversee the functioning of our core banking areas, retail and corporate banking.

EXPANDING OUTREACH →

Public perceptions were well managed through an integrated communications programme that included a major re-branding exercise, strategic public relations and a high profile advertising campaign. In tandem, we rolled out a vigorous network expansion programme. In Bahrain we added five new ATMs and set the stage to open four new branches and two more ATMs in the ensuing year. In addition to the highly successful savings product launch referred to earlier, we broke new ground by becoming the pioneer to launch mobile phone banking in Bahrain.

Further afield, we expanded our reach in retail banking. We widened our footprint overseas by acquiring the Pakistan operations of Royal Bank of Scotland through our subsidiary Faysal Bank Limited. Thus we enhanced our reach from 133 to 220 branches in Pakistan.

CONTROLLING COSTS →

In addition to the expansion and organisational improvements, we also managed to contain our costs through a series of proactive measures. These included optimising our use of office premises, as well as improving productivity of our human resource base with a new rationality being applied to recruitment.

ASSET GROWTH →

Ithmaar's balance sheet remains strong and continues to grow, with total assets increasing by 10.4 percent to US$6.7 billion. Owners' equity, whilst marginally lower than the previous year, remains strong at US$654 million. We have faith in our Strategic Business Plan and in our people to deliver the results and to guide us to a performance that will return the Bank to full profitability within the envisaged time plan.

We have set out hitherto the major challenges stemming from the transformation from a wholesale investment bank to a retail bank. In contrast, our experience in transforming from a conventional bank to an Islamic bank was relatively easy, as Islamic banking has always been inextricably linked with our corporate ethos. We have summarised in this Annual Report Ithmaar's contribution to the development of Islamic banking in Bahrain and elsewhere. We are proud of this rich heritage and are happy that we have the opportunity to take Islamic banking to greater heights in Bahrain and the region.

ACKNOWLEDGMENTS →

The Ithmaar group is founded on its employees, and they have consistently delivered value. Together, we express our sincere appreciation to the management and staff of Ithmaar Bank, as well as those of our subsidiaries and associates around the world for their contribution during the year.

We also thank the Board of Directors of Ithmaar for their continued support and counsel. The year saw several changes in the Board, and the Chairman warmly welcomes the three new members, Zamil Abdullah Al-Zamil, Nabeel Khaled Mohamed Kanoo and Mohammed Bucheerei - who was later also appointed as Chief Executive Officer in July 2010. Four Directors, Khalil Nooruddin, Michael P. Lee, Mohamed Hussain and Kenneth C. Borda resigned from the Board during the year, and we wish them continued success.

Last but not least, we thank our numerous stakeholders, in particular our customers and shareholders for their valued patronage and trust, and the Central Bank of Bahrain for their continuing support.

We face the future with optimism.

Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO & Member of the Board

Winds of Change...Turnaround Year 2010

"We wanderers, ever seeking the lonelier way, begin no day where we have ended another, and no sunrise finds us where left by sunset. Even while the earth sleeps we travel. We are the seeds of that tenacious plant, and it is in our ripeness and our fullness of heart that we are given to the wind to be scattered."

Khalil Gibran

THE ITHMAAR

PARADOX 1.1

A Profit in the Loss

The Bank is reporting a loss of US$150 million, primarily as a result of the impairment provisions, a significant portion of which is prudent provisions on the investment portfolio. Yet, we have made a net income before provisioning of US$51 million when compared to the negative net income before provisioning of US$44 million made in 2009.

Yes, in a pure accounting sense, profit is the excess of income over expenses. Yet, for us 'profit' includes all the positives such as our total income growing from US$112 million to US$ 215 million; our Balance Sheet growing by 10%; raising of US$103 million from a rights issue, tighter control slowing growth in expenses, significant improvements made to products and services such as growing our ATM network and introducing Bahrain's first mobile phone banking service; our customer base growing significantly and so on.

Hence, the paradoxical 'profit in the loss'.

Winds of Change...Turnaround Year 2010

A Financial Review

INTRODUCTION

Ithmaar Bank, in its first year of operations as an Islamic retail bank following the reorganisation in April 2010 with its wholly-owned subsidiary, Shamil Bank, made reasonable progress in terms of overall performance. This performance needs to be viewed in the context of the following challenges.

Year 2010 remained an extremely challenging year for the global economy as a whole, more so for the financial sector, as they continued to struggle out of the 2008 economic crisis. Investor sentiments were still fragile, and capital raising remained tight. While the outlook for emerging markets was more robust, the prospects for our interconnected global economy will largely depend on the health of all its components.

GCC economies remained relatively stable, supported by higher oil prices and expansion of emerging Asian economies. Regional capital markets were picking up, particularly in the Sukuk and bond area. However, syndicated activity was weak, and will continue to be so until regional banks successfully complete the restructuring of their balance sheets, which will require substantial provisioning.

It was against this backdrop of depressed economic conditions and uncertain investor sentiments that Ithmaar Bank reorganised its business model, moving from an investment bank to an Islamic retail bank. The reorganisation with Shamil Bank also had its own challenges. While the market continued to offer business opportunities, competition also heightened, throwing an additional challenge to Ithmaar to complete its transformation, while being saddled with legacy issues arising from its investment banking assets.

At Group level, a critical review and plan to rationalise Ithmaar's investments were put into action. Some of them are earmarked for sale. On the positive side, the retail and corporate banking businesses did well, and core banking business is set to grow significantly in the medium term.

PERFORMANCE

Consolidated net income before provision for impairment losses and overseas taxation improved to US$51.4 million for the year compared to the loss of US$44.0 million reported in 2009, reflecting a significant turnaround. The main contributory factors for this improvement are the growth in total consolidated income by US$103.2 million or 92%, while operating expenses recorded only a marginal increase. The Group managed to successfully contain costs despite an increase in the number of branches, leading to operational efficiencies as reflected by the improvement in the cost to income ratio which fell from 139% in 2009 to 76% in 2010.

Net impairment provisions for the year amounted to US$197.4 million compared to US$206.9 million made in 2009. A significant portion of these provisions during 2010 was for the investment portfolios estimated on a conservative basis.

However, the improvement in total income was offset by the impairment provisions noted above, resulting in a net loss of US$150.1 million attributable to shareholders of the Bank, which is 40% lower than the net loss of US$247.4 million made in 2009.

FINANCIAL POSITION

ASSETS

On the asset side, Murabaha and other financing increased from US$2,189 million to US$2,530 million during the year. Arising from the increase in business volumes and acquisition of new business, total assets increased from US$6,105 million to US$6,743 million in 2010, reflecting a 10.4% growth. As shown in Note 29 to the Consolidated Financial Statements on Segmental Information, corporate and retail banking now account for approximately 70% of the Group's total assets. A major contributor to growth was Ithmaar's Pakistan subsidiary, Faysal Bank Limited (FBL) whose acquisition of RBS Pakistan operation in October 2010 significantly improved the core business of Ithmaar.

FUNDING

It is encouraging to note a significant improvement in various sources of funding, notably customer current accounts, amounts due to investors (mainly from corporates and individuals in FBL) and equity of unrestricted investment account holders. Current accounts improved from US$455 million to US$684 million in 2010 while amounts due to investors increased from US$1,640 million to US$1,970 million. Further, equity of unrestricted investment account holders also increased from US$983 million to US$1,196 million during the year. In addition, the Bank was able to raise a further US$103 million in March 2010 by way of a rights issue. The Bank successfully refinanced certain existing borrowings totalling US$167 million due in 2011 to new maturity in 2015.

EQUITY

Despite the US$103 million raised through the rights issue, total owners' equity decreased from US$711 million to US$654 million as at end-2010 due to the net loss incurred for the year.

PROFITABILITY

The large reduction in the net loss during the year resulted in the Return on Average Assets improving from a negative 4.13% to a negative 2.17%, while Return on Average Equity improved from a negative 30.26% to a negative 21.99%.

ASSET QUALITY

IMPAIRMENT PROVISIONS

As referred to earlier, the Bank continued to review the asset portfolio and make impairment provisions on a prudent basis. A significant portion of these provisions was in relation to the investment portfolios. Details of impairment provision for assets are given in Notes 27 and 35 to the consolidated financial statements.

STABILITY

The Capital Adequacy Ratio (CAR) is one of the most important indicators of the stability of a bank. Accordingly, Ithmaar Bank has over the years been mindful of the need to maintain this ratio at levels above the statutory minimum. As at 31 December 2010 the consolidated CAR was 13.2%. The Bank is cognisant of the need to improve the ratio further to comfortable levels which will strengthen the stability of the institution while creating leeway for future business expansion. As noted earlier, US$103 million was added to the capital base through a rights issue, and Ithmaar will be taking necessary steps in the coming years to further improve the CAR.

LIQUIDITY

Maintaining adequate liquidity received considerable attention throughout the year. Having raised funds through multiple sources, and refinanced certain existing liabilities to 5-year term maturing in 2015, the year ended on a positive note for Ithmaar.

A Financial Review

PERFORMANCE IN THE BAHRAIN BOURSE →

Ithmaar shares continued to be heavily traded in the Bahrain Bourse (Stock Exchange), ranking within the top five of the 42 local listed companies in terms of value traded, volume traded, number of transactions and number of trading days. It ranked number 10 in market capitalisation, which decreased from BD216.4 million to BD132.1 million during 2010, largely due to the decline in the market price from US$0.240 to US$0.125 per share.

A BRIEF REVIEW OF THE GROUP →

The major operating subsidiaries and associates within the Group are briefly discussed below.

FAYSAL BANK LIMITED →

Faysal Bank started operations in Pakistan in 1987, first as a branch of Faysal Islamic Bank of Bahrain, and then in 1995, as a locally incorporated Pakistani bank under the present name of Faysal Bank Limited (FBL). Another group entity in Pakistan, Al Faysal Investment Bank Limited, merged into FBL in 2002, which resulted in a larger, stronger and more versatile institution. FBL is a full-service banking institution offering consumer, corporate and investment banking services through a large network of branches in the country. In line with Ithmaar Bank's focus on growing its core retail business overseas, FBL fully acquired the operations of Royal Bank of Scotland (RBS) Pakistan in 2010, thus increasing the number of its branches from 133 to 220. The Group owns 65.7% of Faysal Bank Limited.

BBK →

BBK was established in 1971, and has grown to become one of the largest commercial banks in Bahrain. It has a strong local and regional presence, including branches in Kuwait and India, and a representative office in Dubai, UAE. BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. It caters to a wide spectrum of customers and sectors, both locally and regionally. The Group owns 25.4% of BBK.

FAISAL PRIVATE BANK →

Faisal Private Bank, originally established in 1980 as Sharia Investment Services SA in Geneva, is the first Swiss bank exclusively dedicated to providing Islamic financial services. Faisal Private Bank is a wholly-owned subsidiary of the Group.

ITHMAAR DEVELOPMENT COMPANY →

Ithmaar Development Company is a developer and manager of Ithmaar Bank's major development projects, which include real estate, infrastructure, resorts, hotels, commercial buildings and medical facilities. Many of these are high profile projects, such as the Dilmunia at Bahrain Health Island, Light of Bahrain, Reflections of Bahrain and Dilmunia at Essaouria, Morocco. Ithmaar Development Company is a wholly-owned subsidiary of the Group.

SAKANA HOLISTIC HOUSING SOLUTIONS →

Sakana, which was established in 2005, provides both residents and non-residents an opportunity for home ownership through a mortgage finance model based on Islamic Sharia principles. With its holistic focus, Sakana's portfolio includes property consulting and property development. The Group owns 50% (controlling stake 62.7%) of Sakana.

SOLIDARITY GROUP HOLDINGS →

Solidarity is one of the largest takaful (Islamic insurance) companies in the world. The company provides Islamic Sharia-compliant general and family takaful products and services in its global business. Solidarity operates two fully-owned subsidiaries in Bahrain, namely, Solidarity General Takaful and Solidarity Family Takaful, while continuing to consolidate and position itself in the markets of Jordan, Saudi Arabia, Malaysia and Egypt. The Group owns 33.8% of Solidarity.

NASEEJ B.S.C. →

Headquartered in the Kingdom of Bahrain, Naseej is the first fully-integrated real estate and infrastructure development company in the MENA region. Forward-looking, socially responsible and Sharia-principled, Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs. Capitalised at US$286 million, the shareholders of Naseej are Ithmaar Bank, Ithmaar Development Company, BBK, Gulf Finance House, Khaleeji Commercial Bank, Faisal Islamic Bank of Egypt, Palm Capital, Social Insurance Organisation of the Kingdom of Bahrain and Eskan Bank. The Group owns 29.5% of Naseej.

OUTLOOK AND STRATEGIES FOR 2011 AND BEYOND →

Market conditions continue to be challenging and volatile, particularly for Ithmaar Bank that has transitioned from a wholesale investment bank to an Islamic retail bank. The turn of events that we witness today in Bahrain and in the wider Middle Eastern and North African region and the resulting sense of instability may exert further pressure on our future performance.

Following the reorganisation in 2010, Ithmaar Bank's new strategy will focus on developing its core banking activity – retail and corporate banking – in Bahrain and the GCC with a view to becoming a leading regional Islamic bank. This will entail an expansion of Ithmaar's customer reach in Bahrain and overseas, as well as the introduction of innovative new products and value added services. ■


PA

THE ITHMAAR

PARADOX 1.2

When Short-term Steps are Long-term Leaps

It all began with the full integration of our subsidiary Shamil Bank during the year. This was our first 'short-term step', which in fact was a giant, long-term leap as we adopted a new and vibrant persona as a strong Islamic Retail Bank. Other 'short-term steps' we took include revisiting our business compositions, repositioning our business and measuring today, our 'stride' for tomorrow...via a new three-year strategic plan focused on Islamic retail banking.

A stride often belies the ground covered.

Winds of Change...Turnaround Year 2010

A Business Review

WHEN SHORT-TERM STEPS ARE LONG-TERM LEAPS

→

Reorganising an established investment bank and converting it into an Islamic retail bank is an imposing task. We have managed the first and most critical phase of this reorganisation very well. We are now driving a new three-year strategy, starting in 2011, with Islamic retail banking at the very core of our proposition.

Our diverse range of competencies, investments and activities were unique. They lent themselves to many interesting possibilities. At the same time, the challenges arising from this diversity were also vast and far reaching. Some of the immediate problems that had to be tackled were daunting. The Bank resolved these with diligence. At the same time, the Bank saw many exciting opportunities. And these have been harnessed in the process of regrouping, reconfiguring and redefining.

What happened next was a testament to humanity's belief and determination to make a difference, and is what this story is about! It resulted in the whole Ithmaar team from Board of Directors to Management and all the way to the staff at the tellers, contributing to several short-term steps that really were long-term leaps in the pursuit of our goals. Paradox 1.2 in the making! 2010 was our rebuilding year with progress being made in each division as we will now explore further.

Islamic Retail Banking is our core proposition and our future. In addition, we aim to strengthen our Corporate and SME businesses. Private banking and the related premier banking sector, are two other core business units that are being given equal attention.

Whilst sharpening our focus on these core business units, we will rationalise our Asset Management business.

ISLAMIC RETAIL BANKING

We have a strong network of distribution channels that comprise 11 branches and 28 ATMs, as well as a full-service Call Centre and a range of sophisticated e-channels.

We are also Bahrain's pioneer in mobile phone banking.

In addition to launching the Kingdom's first Mobile Online Banking service, we introduced a Short Message Service (SMS) notification system to keep customers informed of credit card transactions as they happen, and upgraded our phone banking systems.

Ithmaar has a strong portfolio of retail banking products. The most notable addition during the year was an innovative savings product named "Thimaar Saving" coupled to a prize draw. This was an instant success that drove mobilisation of deposits as well as customer acquisition and satisfaction. We have augmented our sales capability with a strong direct sales team and various sales support units.

We invested in a successful and high profile advertising campaign in 2010. This campaign provided island-wide visibility and top of mind recall as we established Ithmaar as a trusted name in Islamic retail banking.

Our labour has already borne fruit. And we are seeing a growing retail banking portfolio. The flow of retail deposits in particular, is helping Ithmaar improve liquidity and bring down funding costs.

Ithmaar Bank is well positioned in this market to take advantage of the growing demand for Islamic banking products such as Islamic credit cards and home finance. Our reputation in Bahrain enables us to have strong alliances with global brands.

In Bahrain today, the intelligent and well informed customer is increasingly demonstrating buyer power. This is a challenge for all banks. To us, it is very much an opportunity, given our yet relatively small retail base. Our product enhancements and new product developments, as well as all our systems and processes will take advantage of this favourable position. The ensuing years will see a steady flow of innovative products that will give us a clear competitive edge.

In the next three years, we hope to increase very significantly our retail customer base as well as the value of our Islamic banking portfolio.

Review of Corporate & SME Banking, Private Banking, Financial Institutions, Asset Management Group and Treasury appear on pages 38-39.

We've been building our branch business...just so we could see that customer smile...every day of every year!

Winds of Change...Turnaround Year 2010

A Business Review

They're fast...they're convenient...Ithmaar ATMs help customers transact business from almost anywhere...and kids don't get too bored either!

Winds of Change...Turnaround Year 2010

A Business Review

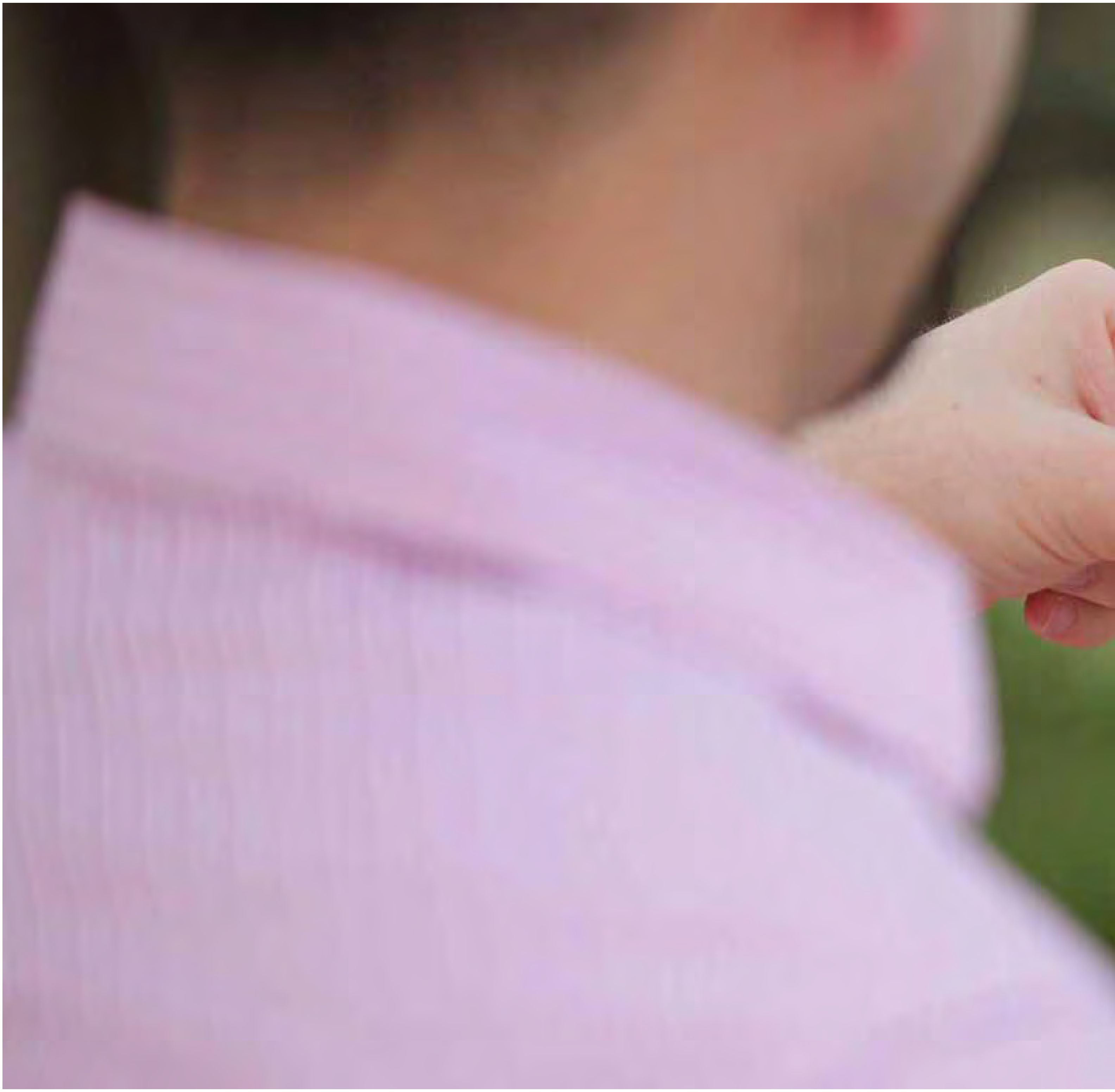
The best cards to have...to the best banking address in town....with access to premium quality services and products.


بنك الإثمار
Ithmaar Bank

It's worth pointing. With Ithmaar financing in hand, life can take a whole new style and meaning.

Perhaps one of the world's best symbols of today...one screen...entertainment...information...and accessing the bank!

Gone are the days when a phone was just a phone...now it'll help you with your online banking transactions...it also helps if you're hooked up to the pioneer in online mobile phone banking in Bahrain!



A pleasurable way to save...is when you get more than you bargained for...not just profit...but also a prize!

CORPORATE & SME BANKING

In corporate and SME banking, we are taking more of a regional view and have set our sights on becoming a dominant force in the region. In addition to the local market, we will be booking assets in GCC countries. Particularly in Saudi Arabia, Qatar and the UAE; and further afield in the MENA region thereafter.

Tier 1 and tier 2 corporate clients will be targeted. The focus will be on short-term finance and working capital activities including Letters of Credit and Letters of Guarantee. For large exposure facilities, syndication capabilities will be used with other local and international banks.

Growth will come from our strong base of existing clients as well as through new customer acquisitions. A comprehensive re-structure of our corporate banking division is underway. We are strengthening our customer facing team in both numbers and capabilities. We are also investing in streamlining our systems and instituting an innovative pricing model.

Our business volumes as well as our profits in this sector are projected to grow extensively in the ensuing three years.

PRIVATE BANKING

We reach high net-worth segments of the retail sector through private banking. We have been serving this segment successfully over a long period, and our name is well established therein.

It is another major growth segment, and also one that remains relatively unscathed, in an era of global economic challenges. Here too we have successfully ventured further afield and have strong relationships across the GCC and MENA regions and beyond.

Premium Banking and Wealth Management are to be launched in the ensuing year. These will complement existing placement services and enable us to serve this segment better through enhanced levels of service and individually tailored solutions.

Our growth in private banking deposits in 2010 is quite noteworthy. By 31 December, private banking deposits stood at nearly US$270 million.

Here too, ensuing years will see us launch a steady stream of innovative products to serve the growing needs of this high net-worth customer segment. We will do this on our own steam as well as through strategic alliances with third parties.

As in our other lines of business, a lot of emphasis is placed on investing in technology, streamlining systems and processes as well as enhancing the skill levels of our people.

FINANCIAL INSTITUTIONS

This sector develops and manages relationships and transactions between Ithmaar Bank and other banks and financial institutions in Bahrain, the region and elsewhere in the world. It also plays an important part in promoting Ithmaar among the financial community around the world.

Through deal sourcing, obtaining lines of credit and arranging funding, the financial institutions division will play a pivotal role in improving the Bank's liquidity position as well as facilitating growth of the Bank's business.

The immediate focus of this division is on mobilisation of funds and deposits, both short and medium-term.

ASSET MANAGEMENT

The focus of Asset Management has changed. Origination and execution of assets takes a back seat, while managing assets and the sale of assets at the opportune time has come to the fore.

We have earmarked specific assets for sale to realign our asset allocation to our new strategy.

Over the next three years the Asset Management will manage these sales on their own as well as in partnership with external parties.

TREASURY

Treasury plays an important part in our overall efforts to manage our daily liquidity and secure medium to long-term funding for the Bank's activities. It also plays a part in generating income through placement of its excess liquidity with other banks and financial institutions.


PA

THE ITHMAAR PARADOX 1.3

The purer our Islamic banking precepts are, the more relevant and acceptable Ithmaar becomes for all times and for all peoples.

For all times…The global financial crisis was fuelled by excessive leverage, unsustainable rises in asset prices, living beyond one's means and a period of highly speculative investment.

In such times, Islamic financing was proven to be more effective in comparison to the conventional. The ethical base of Islamic financing provides for a just financial regime in which financiers share risk and an equitable share of resources must be made available to the poor. Credit expansion is linked to the real economy. Sub prime borrowers are assisted through provision of affordable credit facilities.

For all peoples…the basic tenets of Islamic financing – shunning usury and refraining from funding unethical ventures find resonance with people of all faiths. Buddhists, Christians and Hindus all receive strict guidance which is consonant with the Islamic view.

The essay overleaf explains this paradox in greater detail.

'O mankind! We created you from a single (pair) of a male and a female, and made you into nations and tribes, that ye may know each other (not that ye may despise each other). Verily the most honoured of you in the sight of Allah is (he who is) the most righteous of you. And Allah has full knowledge and is well acquainted (with all things)'. Al Hujurt - Aya 13.

Winds of Change...Turnaround Year 2010

A Primer on Islamic Banking

WHAT SEEMS...ISN'T!

At some point in history the world took the words 'finance' and 'banking' and attached various prefixes to them, qualifying their meaning and context. What this action did was to introduce a niche complex to these terms.

One example of such 'prefixing' – Islamic banking, combining both Islamic banking and Islamic finance - which gained currency across the globe.

What the niche complex accomplished fairly successfully, was to pigeonhole Islamic banking thus creating the perception that its validity and efficacy was limited to the parameters of its niche. The most obvious of these parameters was one of faith, through its adherence to Sharia precepts. The obvious deduction reached thereafter, was that Islamic banking was a financial option targeted at people and economies rooted in Islam.

On the face of it, this was eminently plausible....but what seems...really isn't!

We shall see.

Another perception the niche complex spawned was that Islamic banking lacked the dynamism and pro-activeness of 'conventional' banking (that prefix syndrome again!); that it was over cautious and could not react at speed to unfolding world economic scenarios.

Again, on the face of it, a plausible presumption....but what seems....really isn't!

We shall see.

These two aspects form the fundamentals of the Ithmaar paradox we've just read the page before – that despite what seems, Islamic banking IS for all times and for all peoples - and thus we will take a closer look at what really IS!

WHAT IS ISLAMIC BANKING?

To lend context to this essay, it would be prudent for us to dwell briefly on this subject.

In concise terms, Islamic banking constitutes the provision of financial services, which are deemed compliant with the principles and rules of Islamic commercial jurisprudence (Fiqh al mu'amalat), which is a branch of Sharia jurisprudence.

Fiqh al mu'amalat is concerned with contracts, which form the basis of the Islamic finance model and stipulates which contracts are permissible or not.

Non permissible contracts are those involving interest (Riba), which is universally shunned by the major religions of the world as usury and any dealings with unethical businesses activities such as gambling (Maisir), arms dealing and the like (non-Halal activities or contracts).

Another important dimension in Islamic banking is related to governance, where elimination of uncertainty (Gharar) and fostering transparency are desired in the terms and provisos of all contracts.

Islamic financing has also a very strong social dimension where sharing of wealth (Zakat) with the impoverished and needy is espoused.

One may conclude therefore, that the four pillars of Islamic finance are Riba, Halal, Gharar and Zakat.

Another fact of importance is that Islamic financial practice, due to its contractual base, shape and form (between providers and users of funds) actually originated long before Islamic financial institutions came into being. Thus even today, Islamic banks and financial institutions remain as intermediaries in the process – trustees of the investor's funds, which they manage via a pool of investment which is owned by the investor community.

ISLAMIC BANKING...IS FOR ALL PEOPLES →

One of the primary precepts of Islamic financing, which is the prohibition of usury (Riba) finds resonance with most of the philosophies and great religions of the world.

Plato, Aristotle, Lateran III, Pope Clement V, Pope Sixtus V, Lord Buddha and the Hindu lawmaker Vashishta universally disapproved of usury.

In Islam, the Quran says, for example, "Those who devour usury will not stand, except stand as one whom the Evil one by his touch Hath driven to madness." That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury (The Cow 275).

Prophet Mohammed, the Messenger of Allah (peace be upon him) said: "Every loan, which brings a benefit is riba." (Narrated by al-Bayhaqi.)

In Christianity one finds ample reference to usury in the Bible, for example – "You shall not give him your money on usury, nor lend him your victuals for increase."- Leviticus 25:37

The Hebrew Bible has this verse– "If thou lend money to any of My people, even to the poor with thee, thou shalt not be to him as a creditor; neither shall ye lay upon him interest". – Exodus 22:25

Money is an exchange-medium. It is used up when it is spent. To charge for the money and for its use (by spending) is to charge for the money twice. It is also to sell time since the usurer charges, in effect, for the time that the money is in the hands of the borrower. Time, however, is not a commodity that anyone can sell.

This did not, as some think, prevent investment. What it stipulated was that in order for the investor to share in the profit he must share the risk. In short he must join-in as a partner. Simply to invest the money and expect it to be returned regardless of the success of the venture was to make money simply by having money and not by taking any risk or by doing any work or by any effort or sacrifice at all. This is usury.

The Lord Buddha's teachings on the Eightfold Path expounded over 2,500 years ago, includes "the right livelihood," which says that one ought to avoid treachery, deceit, usury, exploitation, or other harm to humans or animals.

Hindus too shun usury. The oldest known references to usury are found in the Vedic texts of ancient Hindu religious manuscripts dating from 1,500 B.C., which defined usury as any loan that required payment of interest. Around 500 B.C., the Hindu lawmaker Vashishta instituted a special law that forbade the higher castes of priests and warriors from exploiting the lower castes by charging interest for a loan.

And this is just in terms of Riba – usury. In like vein, the three other pillars of Islamic finance – Halal, Gharar and Zakat - are not inconsistent with the precepts of the world's religions.

Islamic financing really IS for all peoples!

ISLAMIC BANKING IS FOR ALL TIMES →

To say that the world was completely unprepared for the economic chaos triggered by the collapse of the US subprime market would be a gross understatement, as has been most graphically proven over the past few years.

This unsavoury phenomenon provides us with the clearest 'case study' of the failures of conventional financial models as opposed to the success achieved by institutions adopting Islamic financing principles.

In a nutshell, we saw an era of excessive and imprudent lending, where inadequate market discipline and often wilful lax governance in the global economic sector led to an unhealthy expansion in the overall volume of credit, to excessive leverage, and to an unsustainable rise in asset prices, living beyond means, and speculative investment.

Unwinding later on gave rise to a steep decline in asset prices, and to financial fragility and debt crises.

In this case, the subprime mortgage crisis provides us with a classic case of excessive and imprudent lending. It unveiled an 'originate to distribute' model of financing, which fostered a scenario of 'enjoying the reward whilst passing on the risk'.

This in turn led to a staggering expansion in derivatives; more particularly Credit Default Swaps (CDS) as lenders sought to 'indemnify' their loans against default on repayment and indeed even to reap profits at the end of the day.

This diabolical process allowed mortgage originators to pass the entire risk of default of even subprime debt to the ultimate purchasers who would have normally been reluctant to bear such a risk. Mortgage originators had, therefore, less incentive to undertake careful underwriting.

It is worth repeating some thoughts on the credit default swap that by now the world has been privy to.

The Bank for International Settlements (BIS) estimates the notional amount of all outstanding derivatives to be over US$600 trillion, more than ten times the size of the world economy.

George Soros described derivatives as "hydrogen bombs", and Warren Buffett called them "financial weapons of mass destruction".

We said earlier that the world was unprepared for the chaos that transpired from this scenario – it would not have been, except for the flouting of all checks and balances and codes of governance that did exist in the statutes.

And so to Islamic banking.

The underlying fundamental in Islamic financing is justice, which promotes the adoption of a set of rules or moral values by all parties. Under this precept, both financier and entrepreneur are required to share in both profit as well as loss. This leads to a heightened awareness and attention being paid to risk – it helps to introduce more discipline into the financial system by motivating financial institutions to assess the risks more carefully and to effectively monitor the use of funds by borrowers. The double assessment of risks by both the financier and the entrepreneur should help inject greater discipline into the system, and go a long way in reducing excessive lending.

Dr. Umer Chapra, Senior Research Advisor at the Islamic Research and Training Institute of the Islamic Development Bank (IDB) examined this subject at length. He said, "We can see that the Islamic financial system is capable of minimising the severity and frequency of financial crises by getting rid of the major weaknesses of the conventional system. It introduces greater discipline into the financial system by requiring the financier to share in the risk. It links credit expansion to the growth of the real economy by allowing credit primarily for the purchase of real goods and services which the seller owns and possesses, and the buyer wishes to take delivery of. It also requires the creditor to bear the risk of default by prohibiting the sale of debt, thereby ensuring that he evaluates the risk more carefully. In addition, Islamic finance can also reduce the problem of subprime borrowers by providing credit to them at affordable terms. This will save the billions that are spent after the crisis to bail out the rich bankers".

The general consensus has been that Islamic financing and Islamic banks have weathered this crisis and emerged in much better shape than many conventional institutions.

Islamic financing IS for all times and for all peoples. ■

A Primer on Islamic Banking

ITHMAAR INTRINSICALLY INVOLVED...

The Ithmaar banking group has been intrinsically involved with the development of Islamic banking in the Kingdom of Bahrain.

Our journey on the pathway of Islamic banking began with the incorporation of the Sharia-governed Faysal Islamic Bank of Bahrain (FIBB), the predecessor of Shamil Bank, and later Ithmaar Bank in 1982. Way back in the 80's, the formalised infrastructure for Islamic banking in Bahrain was virtually non-existent and thus the widening footprint of FIBB on the Islamic banking landscape assumed great significance.

Ithmaar Bank, historically as FIBB and Shamil Bank, pioneered and innovated many products and transactions that served as the foundation for Islamic banking in Bahrain and in the region. For example, among the many Sharia-compliant financial instruments they put forth was one for managing liquidity. At the time, most banks were investing and managing their liquidity through placements with conventional banks.

Similarly, the Bank innovated cross border syndicated facilities in mid 90's, for the use of both Islamic and conventional banks, to service international transactions. This was a pioneering move.

Dwelling a while on the pioneering aspects of Ithmaar Bank, this institution was able to structure various financial products compliant with Islamic Sharia precepts, including a number of investment funds, that were introduced to the market, leading to widespread acceptance.

Similarly, the first ever aircraft financing instrument in Islamic financing was enacted by the Bank.

As regards the regulation of Islamic banking, the Bank contributed substantially towards assisting a number of Islamic as well as conventional financial institutions to introduce Islamic banking windows.

This institution was also instrumental in laying the foundation stone for AAOIFI – in the context of the standardisation of financial reporting for all Islamic banks worldwide.

Similarly, the Bank helped the regulatory authorities in setting up a scheme for regulating and supervising Islamic banking, and we are pleased to say that the Central Bank of Bahrain was the first ever central bank to come up with comprehensive Islamic financial regulations as well as supervisory regimes for Islamic banks for the modern, contemporary era.

In this manner, Ithmaar Bank through its past constituents FIBB and Shamil Bank always played a pivotal role in the establishment of infrastructure and development of Islamic banking in Bahrain, and continues to do so.

Thus, we were 'in on the ground floor' and all our contributions have stood the test, being scrutinised and reviewed by all manner of forums – banking, regulatory and legal (Sharia), to name a few.

Very soon, Ithmaar began to earn the respect and recognition of many - the Islamic banking community, the Islamic Development Bank, and further afield – banks outside Bahrain, including the Bank of England.

The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

The Board's adherence to best corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness and social responsibility.

Moreover, the Bank's corporate governance policies are designed to lay a solid foundation for management and oversight, promote ethical and responsible decision making, safeguard integrity in financial reporting, make timely and balanced disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interest of stakeholders. The Bank's written Code of Ethics and Business Conduct, that binds all employees and Directors, lends further weight to the practical implementation of our stated policies.

Further, the Bank is subject to compliance with the requirements stipulated by the Central Bank of Bahrain (CBB), Bahrain Bourse, the Kuwait Stock Exchange (KSE), the Bahrain Commercial Companies Law and the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

SHAREHOLDERS' RIGHTS →

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

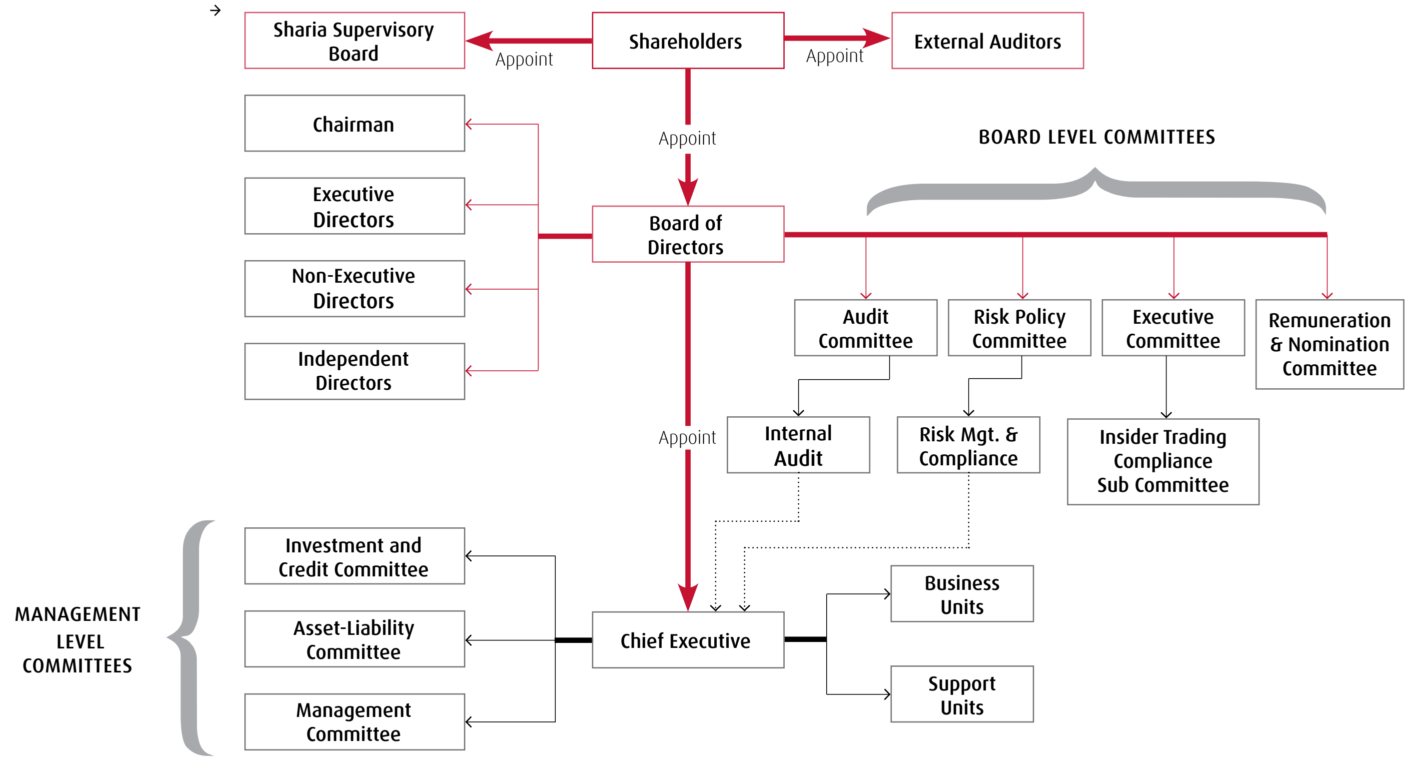
BANK ADMINISTRATION

The Bank is administered by the Board of Directors.

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction, and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

The Members of the Board of Directors are elected for a three-year term.

HIGH LEVEL ORGANISATION CHART



BOARD COMMITTEES AND SUB-COMMITTEES

In accordance with regulatory requirements and best practices, the Board has established the following committees and sub-committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT COMMITTEE

The Audit Committee is appointed by the Board to assist the Board in reviewing the integrity of the Bank's financial reporting; overseeing the selection and compensation of the external auditor for appointment and approval at the shareholders' meeting; monitoring the external auditor's qualifications and independence; reviewing the activities and performance of the Bank's internal audit function; and reviewing the compliance by the Bank with legal and regulatory requirements including all relevant laws, regulations, codes and business practices.

The Audit Committee comprises:

- Zamil Abdullah Al-Zamil, CHAIRMAN and MEMBER
- Nabeel Khaled Mohamed Kanoo, MEMBER
- Shaikha Hissah bint Saad Al-Sabah, MEMBER

EXECUTIVE COMMITTEE

The Executive Committee, acting on behalf of the Board, provides Board oversight of the Bank's strategic transaction planning and activities; approves transactions for which the Board has delegated authority to the Executive Committee within the parameters of the Limits of Authority; makes recommendations to the Board regarding transactions not within the parameters of the Limits of Authority of the Executive Committee; and evaluates the Bank's financial strategies and policies.

The Executive Committee comprises:

- Sheikh Mohammed Youseef El Khereiji, CHAIRMAN and MEMBER
- Mohammed A. Rahman Bucheerei, MEMBER
- Juma Abull, MEMBER

REMUNERATION & NOMINATION COMMITTEE

The Remuneration & Nomination Committee is appointed by the Board to assist the Board in the effective discharge of its responsibilities in relation to the remuneration of Directors and performance of the Board, ensure appropriate Board composition, ensure appropriate nomination of Directors to the Board, and provide a formal forum for communication between the Board and the Bank's management on human resource issues. Moreover, the Remuneration & Nomination Committee is authorised by the Board to review and investigate any matter within the scope of its Charter and to make recommendations to the Board in relation thereto.

The Remuneration & Nomination Committee comprises:

- Tunku Dato' Ya'acob Bin Tunku Abdullah, CHAIRMAN and MEMBER
- Shaikha Hissah bint Saad Al-Sabah, MEMBER
- Abdulhameed M. Aboumoussa, MEMBER

RISK POLICY COMMITTEE

The primary objectives of the Risk Policy Committee are to make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the policies within which to manage the aforementioned. These policies are defined as credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories the Bank faces in carrying out its activities. The Risk Policy Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management, compliance procedures and methods of reporting to the Board.

The Risk Policy Committee comprises:

- Abdulhameed M. Aboumoussa, CHAIRMAN and MEMBER
- Tunku Dato' Ya'acob Bin Tunku Abdullah, MEMBER

INSIDER TRADING COMPLIANCE SUB-COMMITTEE

The main objectives of this Sub-Committee are to undertake the responsibility of ensuring that the Company complies with the insider trading guidelines issued by the CBB, to review and investigate any matter within the scope of its charter, and to make recommendations to the Executive Committee in relation thereto.

The Insider Trading Compliance Sub-Committee comprises:

- Nabeel Khaled Mohamed Kanoo, CHAIRMAN and MEMBER
- Ahmed Abdul Rahim, MEMBER
- Jassim A. Karim Salman, MEMBER

NUMBER OF BOARD AND COMMITTEE MEETINGS HELD AND ATTENDANCE

Director	Main Board		Audit Committee		Executive Committee		Remuneration & Nomination Committee		Risk Policy Committee	
	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.	Elig.	Attd.
HRH Prince Amr Mohamed Al Faisal	9	9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Khalid Addulla-Janahi	9	9	N.A.	N.A.	2	2	1	1	N.A.	N.A.
Tunku Dato' Ya'acob Bin Tunku Abdullah	9	7	N.A.	N.A.	1	1	3	3	4	3
Shaikha Hissah bint Saad Al-Sabah	9	4	3	1	N.A.	N.A.	3	2	N.A.	N.A.
Sheikh Mohammed Youseef El Khereiji	9	4	2	1	5	3	1	1	N.A.	N.A.
Sheikh Zamil Abdullah Al-Zamil	7	7	3	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Abdulhameed M. Aboumoussa	9	7	2	1	N.A.	N.A.	2	2	3	3
Nabeel Khaled Mohamed Kanoo	7	4	3	2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Khalil Nooruddin	8	7	2	2	N.A.	N.A.	N.A.	N.A.	4	4
Mohammed A. Rahman Bucheerei	7	7	N.A.	N.A.	4	4	N.A.	N.A.	N.A.	N.A.
Kenneth C. Borda	1	1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1	0

Elig. - Number of meetings eligible to attend
Attd. - Number of meetings attended
N.A. - Not applicable

In accordance with the Bank's Articles of Association, the Board of Directors meets at least four times a year and the Board expects each Director to attend at least 50 percent of all Board meetings and the meetings of the committees on which they serve.

MANAGEMENT COMMITTEES →

The Bank has in place the following Management Committees with the Chief Executive Officer functioning as the Chairman of each committee. The members of committees comprise the Heads of Divisions who are drawn from relevant and related functions.

INVESTMENT AND CREDIT COMMITTEE (ICC) →

The main objective of this committee is to review, approve and ratify all investments and credit within its authority, review risk management reports and resolve all credit-related issues.

ASSET-LIABILITY COMMITTEE (ALCO) →

The main functions of the ALCO are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Plan and relevant banking regulations and laws.

MANAGEMENT COMMITTEE (MC) →

The MC's principal objectives are to improve communications and cooperation among the various divisions/departments of the Bank and to optimise the Bank's operational efficiency.

CONFLICT OF INTEREST →

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict.

The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

CODE OF BUSINESS CONDUCT AND ETHICS →

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

INTERESTS OF DIRECTORS AND EXECUTIVE MANAGEMENT →

The interests of Directors in the shares of the Bank are disclosed in the Report of the Directors.

SHARE INFORMATION →

Information on the distribution of share ownership together with key statistics on the performance of the Bank's shares on the Bahrain Bourse are disclosed in the section titled Share Information of the Annual Report.

COMMUNICATION WITH STAKEHOLDERS

The Bank follows the Public Disclosure Module of the CBB Rule Book, Volume II. The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. The main communication channels include annual reports, quarterly publications of financial results, a corporate website and regular announcements in the appropriate local media. Financial information covering the last three years is available on the Bank's website.

INTERNAL AUDIT

The Bank's internal audit function monitors compliance with the policies and procedures and effectiveness of internal controls. The work of internal audit is focused on the areas of risk assigned through a risk assessment approach.

The Group's Chief Internal Auditor reports functionally to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal audit conducts its work independently of the Bank's senior management, in accordance with the internal audit plan approved by the Audit Committee.

DIRECTORS' REMUNERATION

It is the Bank's objective to attract and retain high quality Directors. One aspect of achieving this is by remunerating Directors in a manner consistent with prevailing best practice. Directors are entitled to a sitting fee paid per meeting attended. Non-resident members are also entitled for full travel expenses. These fees are recommended by the Remuneration and Nomination Committee, approved by the Board and are disclosed to the shareholders.

MANAGEMENT REMUNERATION

The Chief Executive Officer and senior managers are compensated in line with the market trends and performance linked bonus is paid on the basis of their individual performance which is evaluated at the end of the year.

BOARD INDUCTION PROGRAMME

The Company Secretary provides sufficient information to newly appointed/elected Board members including a discussion of the Corporate Governance Principles of the Bank and the Code of Ethics & Business Conduct. These Board members are also received by the Chief Executive Officer of the Bank who provides them with details on the investment structure of the Bank, strategic & business plans, and the past financial performance. The Board is continuously kept abreast of new regulations and laws.

DIRECTORS' ELECTION SYSTEM

Any shareholder who owns 10% or more of the capital of Ithmaar Bank shall have the right to appoint a representative on the Board of Directors of Ithmaar Bank. In the event that a shareholder exercises this right, such shareholder shall lose the right to vote for the percentage for which the shareholder has appointed a representative on the Board of Directors.

Subject to the foregoing, the General Assembly shall elect members of the Board of Directors by a secret ballot. The members shall be elected by the relative majority of valid votes.

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum and Articles of Association, the Code of Ethics & Business Conduct, the Corporate Governance Policy and the law, rules, regulations, policies and charters in place as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board of Directors include, among other things, assessing the skills required for the Board of Directors to competently discharge its responsibilities and meet its objectives as well as developing and implementing a plan to identify, assess and enhance Directors' competencies. In the event of a vacancy on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board of Directors for the appointment of a Director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Directors receive an appointment letter, signed by the Chairman, in which relevant information about appointment, termination and responsibilities are described. Directors also receive a copy of the Bank's Code of Ethics & Business Conduct.

Risk Management

Risk is an integral part of Ithmaar's business and is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder value through business profits commensurate with the risk appetite of the Bank.

Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by the Bank for International Settlements and international best practices.

RISK GOVERNANCE STRUCTURE

The Ithmaar risk management charter, which details the roles and responsibilities of the Board and of the senior management, lays the foundations for a risk governance structure in the Bank.

The Board approves the Bank's business and risk strategy and ensures that business developments are consistent with its risk appetite and strategies. The Board also oversees the establishment and implementation of risk management systems and policies for on and off balance sheet risks as well as operational risks.

The Risk Policy Committee (RPC) assists the Board of Directors and the senior management in performing their risk management oversight function. The Committee is responsible to ensure that the Bank adopts, maintains and applies appropriate risk management policies and procedures.

The process of risk management is carried out by an independent control function: Risk Management Department headed by the Chief Risk Officer with a direct reporting line to the RPC. The department is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits within the parameters of the overall risk strategy approved by the Board.

RISK MANAGEMENT STRATEGY

A structured risk management framework has been established to ensure that Ithmaar's business strategy and operations are linked to its risk management objectives. The overall risk strategy is complemented by appropriate limit structure management and supported by comprehensive risk policies and procedures for all the material risk the Bank is exposed to.

The risk management strategy in respect of each of these types of risks is set out below:

CREDIT RISK

The significant concentration of credit risk as at 31 December 2010 is set out in Note 34. Credit risk is the risk of potential loss arising from failure of a counterparty to meet its contractual obligations. Ithmaar manages its credit risk arising from its banking book activities by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.
A centralised credit risk management system is in place where all significant exposures are independently reviewed by the Risk Management Department before approval.

The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by country, industry, tenor and products. The risk policies also set the criteria for risk rating and credit exposures. The policies also outline the scoring techniques used in grading and classifying exposures.

The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. All credit exposures are monitored on a continuous basis.

Strategic Investments including investments in real estate, are subject to at least an annual review. Investments held in the Available for Sale category are reviewed at shorter frequencies. Each investment exposure is evaluated individually for impairment assessed on is merits, strategy, and estimated cash flows considered recoverable.

ECAI Ratings →

Ithmaar Bank utilises Basel-recognised ratings by External Credit Assessment Institutions (ECAI), including those adopted by host regulators where the Bank's subsidiaries operate, for the purpose of assigning risk weights on assets. In case of multiple ECAIs rating of a single counterparty, the lowest of all is taken to assign the relevant risk weight. The Bank uses ECAI ratings recognised by host regulators for its financing, placements and investments exposure.

The Bank complies with all the qualitative requirements for the recognition process and eligibility criteria of ECAIs rating in the credit risk management policy of the Bank.

Credit Risk Mitigation →

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While existence of collaterals is not a precondition for financing, in practice a large part of existing exposures are fully or partially collateralised. The Bank has clear policies on types of assets that can be accepted as collateral and the mode of valuation of these assets. In general all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash collateral and guarantees issued by investment-rated counterparties. Other types of collateral are accepted on exceptional basis provided that such collateral can be reasonably valued.

MARKET RISK →

Market risk is the potential loss arising from adverse changes in foreign exchange rates, equity prices and profit rates.

The Bank does not maintain an active trading book and all Ithmaar's market risk exposure primarily consists of profit rate risk in investments, volatility in price of equities and foreign exchange rate.

Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant Business Units with oversight by the ALCO and RPC.

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk →

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates.
At Ithmaar, foreign exchange risk is the risk that an exposure denominated in any foreign currency may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions and the use of appropriate hedging instruments. For more details, please refer to Section 25 of the Basel II disclosures.

Equity Price Risk

Ithmaar is exposed to equity price risk through strategic investments and investments in equities held in the Available for Sale category. The responsibility for management of equity price risk rests with the business units under the supervision and guidance from the Investment and Credit Committee of the Bank. The Risk Management Department independently monitors the equity price risk of the Bank. The Bank's equity investments are approved by the appropriate authorities and are subject to comprehensive due diligence. The equity investments are measured in accordance with the Financial Accounting Standards (FAS).

Profit Rate Risk in the Banking Book

Profit rate risk in the Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet in current and future years resulting from the impact of changes in profit rates on mismatched assets and liabilities in the banking book. The Bank measures and manages profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps.

The measurement systems for profit rate sensitivity analysis are traditional maturity gap analysis (to measure the profit rate sensitivity of earnings) and duration (to measure profit rate sensitivity of capital).

Profit rate risk is regularly monitored by the ALCO/RPC and a comprehensive agenda addressing the rate is placed at its meetings. Further information on profit rate risk management is included in the Notes to the Financial Statements.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO/RPC.

The Risk Management Department provides an independent monitoring of liquidity risk management, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the required funding maturity profile.

Liquidity requirements are measured and tested under different scenarios, with the base case scenario defining the minimum amount of liquidity that must be held at all times. The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities, the process of setting such standards, the terms of reference of ALCO, the roles and responsibilities of the various functions involved and the management information systems.

A liquidity contingency policy is in place and provides the mechanism for management of liquidity in adverse market conditions.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can result in both financial loss and/or reputation risk.

Ithmaar's approach to operational risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues.

All business units are primarily responsible for managing their business activities as per the approved policies and procedures. They are also responsible for the identification and assessment of operational risks and for maintaining appropriate internal controls.

The Bank is currently enhancing its operational risk framework to enable it to put in place a comprehensive risk and control self assessment process to identify the key risks in the business processes. This will also include a process of identifying and managing the key risk indicators, loss reporting set-up and implementing a robust business continuity plan.

REPUTATION RISK →

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. The Bank has in place a 'Corporate Governance Policy' and a 'Code of Ethics and Business Conduct' for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank. It will also help in preventing any reputation risks.

RISK MANAGEMENT REPORTING AND CONTROL →

The effective measurement, reporting and control of risk is vital to ensure that Ithmaar's business activities are managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation. The Bank is currently reviewing its MIS needs to further support its risk management processes.

RISK MANAGEMENT POLICIES AND PROCEDURES →

Ithmaar has developed specific risk management strategies, policies and procedures in order to identify, measure, monitor and report the key risks the Bank is exposed to. The Bank has about 40 different policies divided into four volumes, each addressing a specific risk area, namely, High Level Controls, Credit Risk Management, Market Risk Management and Operations Risk Management.

INTERNAL CONTROLS →

Ithmaar's risk management framework is complemented by robust internal controls across all aspects of the business, as well as strong support functions covering the legal, regulatory, governance, reputation, information technology, process and human resource risks.

Consequently, the effectiveness and efficiency of controls are evaluated in all new and updated products, processes and systems, or where external and internal factors impact the operating environment.

CAPITAL MANAGEMENT →

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholder value is enhanced.

Ithmaar maintains capital at a consolidated level and all entities, which are consolidated for accounting purposes are included within the Bank's capital adequacy calculations as per CBB Prudential Consolidation and Deduction rules.

Ithmaar's capital position is monitored on a regular basis and reported to the ALCO and the Board through RPC.

Capital management is a coordinated effort by the business divisions, Risk Management and Financial Control and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP).

A comprehensive risk-assessment of the 2011–2013 Business Plan has been performed which, inter alia, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios.

COMPLIANCE RISK →

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of its failure to comply with the requirements of relevant laws and regulations.

The compliance risk management is managed through the Compliance Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, the escalation, remediation of compliance incidents and control weaknesses.

Management believes that Ithmaar Bank conducts its business in conformity with high ethical standards and aims to comply with all laws and regulations pertaining to financial institutions.

The Bank has appointed a compliance officer in accordance with CBB directives to ensure that the Bank's operations achieve a consistently high level of compliance with all relevant laws and regulations. Each of Ithmaar's subsidiaries also employs local compliance officers to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review. The compliance function is subject to periodic audit by the Internal Audit department.

CUSTOMER COMPLAINT PROCEDURES →

The Bank has in place a formal customer complaints procedure that complies with the Code of Best Practice on Consumer Credit & Charging issued by the Bankers Association of Bahrain. A dedicated customer complaints officer is responsible for handling and resolving complaints. Contact details of this Officer are publicised at all branches. All customer complaints are resolved up to the best satisfaction of the customers promptly, and are monitored by the Bank's Compliance Officer.

ANTI MONEY LAUNDERING →

It is the Bank's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, the Bank has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

The Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's anti money laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities, and also conducts compulsory training for all Ithmaar employees at all levels.

The Bank's AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

BASEL II IMPLEMENTATION →

The Bank is applying the provisions of the Basel II Accord as follows:

Pillar 1 →

Pillar 1 deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk. For capital adequacy measurement the Bank has adopted standardised approach for credit risk and market risk, and uses a basic indicator approach for operational risk. Ithmaar is compliant with all requirements of Pillar 1 and, since January 2008, started reporting the consolidated capital adequacy numbers as per the new accord.

Pillar 2 →

In order to ensure compliance with the provisions of Pillar 2, Ithmaar has formalised all risk management policies including risk covered in Pillar 2 and is endeavouring towards laying the foundation for a sound Internal Capital Adequacy Assessment Process (ICAAP). A comprehensive operational risk management framework is also being rolled over in line with international best practices.

Pillar 3 →

The Bank currently follows the AAOIFI accounting standards, and is in compliance with the disclosure requirements mandated by the CBB, the Bahrain Bourse and the Kuwait Stock Exchange.

FUNDS UNDER MANAGEMENT (FUM)

The Bank provides two types of FUM classified as Un-restricted investments accounts (URIA) and Restricted Investments Accounts (RIA). The investors include both individuals and corporates.

The standard of prudence is applied in the context of managing the overall portfolio including the Restricted Investments Accounts funds to enable the Bank to exercise its fiduciary responsibilities. The composition, characteristics and diversification of the Bank's funding structure is monitored within appropriate risk limits detailed in the risk policies of the Bank and relevant prospectus of the RIA funds. The optimal mix of corporate and Mudaraba fund is maintained while regularly monitoring the trend and concentration of exposures. The investment objective of the FUM is to provide maximum returns to both the account holders and to the Bank while at the same time minimising risks in the utilisation of the funds. A thorough due diligence process is in place which is consistent with business and risk policy guidelines of the Bank and of the specific funds which complement the parameters of Sharia rules and regulatory framework. URIA Funds are invested in Sharia compliant commercial or consumer financing as well as short and medium term investments excluding strategic investments.

The profit rate paid to URIA investors are benchmarked with the market rates. Appropriate mechanism for profit rate smoothening (such Profit Equalisation Reserves) is in place. Fee-based income is for the account of the Bank. URIA-funds are not subject to any administration expenses. However, in the case of RIA funds specific expenses that may arise in relation to the launching of a Mudaraba and in deploying its funds, the same will be charged against the gross revenue of that Mudaraba as set out in the related Mudaraba agreement.

The Bank does not co-mingle the Corporate and Mudaraba funds. However, co-investments are allowed as per certain prudent policy guidelines. As a general rule, priority will be given to funding and booking an asset in the Fund that appropriately matches its risk profile. Investors are permitted to draw their deposits in accordance with the terns of the Mudaraba contract.

The Profit Distribution Sheet (Mudaraba Account) provides details on investment period and Bank's share of profit which is as follows:

Period	Bank's Share
Undetermined term (savings account)	60%
30 days (1 month)	50%
90 days (3 months)	45%
180 days (6 months)	40%
360 days (12 months)	35%

Average declared rate of return or profit rate on PSIA by maturity (3-month, 6-month, 12-month, 36-month) in percentage terms paid annually;

BD denominated		7 days	1 month	3 months	6 months	1 year
Savings	0.49	–	–	–	–	–
Mudaraba	–	0.49	2.88	3.23	3.48	3.69
Private investment portfolio	–	–	3.02	3.33	3.53	3.79
Special Mudaraba						

US$ denominated		7 days	1 month	3 months	6 months	1 year
Savings	0.49	–	–	–	–	–
Mudaraba	–	0.49	2.95	3.23	3.48	3.69
Private investment portfolio	–	–	3.02	3.33	3.53	3.79
Special Mudaraba						

RISK MANAGEMENT OF SUBSIDIARIES

Each operating subsidiary has a dedicated Risk Management and Compliance function(s) for implementing policies and supervising appropriate management of overall risks of the subsidiary including assessment, mitigation and monitoring of risks, and reporting on the risk status.

Each operating subsidiary has its own set of policies and parameters which are subject to the review by the RPC of Ithmaar. Arrangements are being made in order to receive periodic risk reports from subsidiaries for onward submission and review by the Board.

Non-operating subsidiaries are subject to the risk principles of the Bank itself.

Board of Directors

The Board presently has nine Directors, including five independent Directors.
The number of Directors on the Board is established by the Bank's Memorandum and Articles of Association.

[1] His Royal Highness Prince Amr Mohammed Al Faisal
Chairman

HRH Prince Amr has more than 24 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is a member of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMI Trust), Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt) and Chairman of the Board of Directors of Al Daleel Information Systems.

HRH Prince Amr is Founder and Director of the Red Sea Bureau for Engineering Consultancy (Jeddah), Al Daleel Company For Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company For Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce.

He is a fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a member of the Saudi Council of Engineers.

HRH Prince Amr holds a Bachelor of Arts degree in Architecture from King Abdulaziz University, Saudi Arabia.

[2] Zamil Abdullah Al-Zamil (★)
Independent, Non-Executive Board Member

Mr. Al-Zamil has more than 30 years of experience in managing business activities in various sectors.

He is Chairman of Zamil Offshore Services and Zamil Operations and Maintenance Co. Ltd.

Mr. Al-Zamil is a Member of the Board of Directors of Zamil Group Holding Company and the Saudi Chamber of Commerce, Eastern Province.

He holds a Masters Degree in Petroleum Engineering from West Virginia University, USA.

[3] Sheikh Mohammed Youseef El Khereiji
Independent, Non-Executive Board Member

Sheikh Mohammed has more than 11 years of banking experience.

He is Chairman of Global Investment and Management SA, Global Hotels and Resorts BV, Marriott European Holding, and Creative Investment and Marketing SA. He is also Chairman of Sage Capital Management Group in Bahrain, and the International Ambassador of the Swiss Red Cross.

Sheikh Mohammed is also Chief Financial Officer of El Khereiji Group.

He holds a Masters of Business Administration Degree in Marketing and Finance from Webster University, Switzerland.

[4] Tunku Dato' Ya'acob Bin Tunku Abdullah
Independent, Non-Executive Board Member

Prince Ya'acob has more than 30 years of banking and finance experience.

He is Chairman of MAA Holdings Berhad (Malaysia),

Prince Ya'acob holds a Bachelor of Science degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants in England and Wales.

★ Not in picture.

Board of Directors

[5] Shaikha Hissah bint Saad Al-Sabah
Independent, Non-Executive Board Member

Shaikha Hissah has more than 11 years of banking experience.

She is President of the Council of Arab Businesswomen.

Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon and has a Doctorate degree in Humane Letters.

[6] Abdulhameed M. Aboumoussa
Non-Executive Board Member

Mr. Aboumoussa has more than 45 years of banking experience.

He is the Governor of Faisal Islamic Bank of Egypt. Mr. Aboumoussa is a Member of the Coordinating Council that determines the monetary and fiscal policy objectives of the Egyptian economy. He is also a member in the General Assembly of the state owned Banks, representing the Egyptian government in these Banks.

He holds a Bachelor of Science degree in Accounting and a Diploma in Finance from Cairo University in Egypt, as well as a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy.

[7] Khalid Abdulla-Janahi
Non-Executive Board Member

Mr. Janahi has more than 25 years of banking experience.

He is Group Chief Executive of Dar Al-Maal Al-Islami Trust (DMI Trust).

He is Chairman of Faisal Private Bank (Switzerland), DMI Administrative Services, Islamic Investment Company of the Gulf (Bahamas) Ltd., Solidarity Group and Naseej.

Mr. Janahi is a member of the Board of Faisal Islamic Bank of Egypt, and the Centre for International Business and Management (CIBAM) at the University of Cambridge.

He holds a Bachelor of Science degree in Computer Science and Accountancy from the University of Manchester, UK and is a Fellow of the Institute of Chartered Accountants in England and Wales.

[8] Mohammed A. Rahman Bucheerei
Board Member and Chief Executive Officer

Mr. Bucheerei has more than 41 years of experience in accounting, commercial and offshore Banking. He was appointed Chief Executive Officer at Ithmaar Bank in July 2010, and has been a Member of The Ithmaar Board of Directors since March 2010.

He is also a member of the Bank's Executive Committee. Prior to his current appointment, Mr. Bucheerei was the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia. His previous position included Executive Vice President, Shamil Bank of Bahrain. He currently serves on the Boards of Islamic Investment Company of the Gulf (Bahamas) Limited, Overland Capital Group, USA, and Solidarity Group Holding, Bahrain.

Mr. Bucheerei studied Accounting, Mathematics and Economics at Gulf Polytechnic, Bahrain.

[9] Nabeel Khaled Mohamed Kanoo (★)
Independent, Non-Executive Board Member

Mr. Kanoo has more than 14 years of business experience.

He is Senior General Manager of the Kanoo Travel Group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt and a Board Member of the Bahrain Chamber of Commerce and Industry.

He is also Chairman of Bahrain's Tourism Committee.

Mr. Kanoo holds a Bachelor of Business Management degree from St. Edwards University, Austin, Texas.

★ Not in picture.

Executive Management

The Executive Management is responsible for operating the Bank in an effective, ethical and legal manner designed to produce value for the Bank's shareholders consistent with the Bank's business plans, policies and standards.

[1] Mohammed A. Rahman Bucheerei
Chief Executive Officer and Member of the Board. Joined the group in January 1991. Has 35 years experience.

[2] Juma Abull
Executive General Manager, Support Group. Joined the group in January 1988. Has 31 years experience.

[3] Yousif Ahmed Ali Al-Hammadi
General Manager, Commercial Banking. Joined the Bank in October 2010. Has 32 years experience.

[4] Ahmed Abdul Rahim
General Manager, Retail Banking. Joined the Bank in June 2006. Has 33 years experience.

[5] Carolyn Prowse
Assistant General Manager, Head of Asset Management. Joined the Bank in August 2007. Has 17 years experience.

[6] Shahriar Khoshabi
Assistant General Manager, Head of Financial Institutions. Joined the Bank in September 2010. Has 28 years experience.

[7] Abdul Hakim Khalil Al-Mutawa
Assistant General Manager, Head of Private Banking. Joined the Bank in January 2003. Has 29 years experience.

[8] Tawfiq Mohammed Al-Bastaki
Assistant General Manager, Chief Risk & Compliance Officer. Joined the group in December 1999. Has 32 years experience.

[9] Mohammad Ali
Assistant General Manager, Chief Internal Auditor. Joined the group in January 1996. Has 44 years experience.

[10] Ravindra Khot
Assistant General Manager, Chief Financial Officer. Joined the Bank in June 2007. Has 25 years experience.

[11] Prakash Pathmanathan
Assistant General Manager, Head of Strategic Planning. Joined the Bank in August 2007. Has 31 years experience.

[12] Scott A. Creswell
Assistant General Manager, Head of Legal, General Counsel and Company Secretary. Joined the group in September 1986. Has 31 years experience.

[13] Abdulrahman Al-Shaikh
Assistant General Manager, Head of Banking Operations. Joined the Bank in August 1991. Has 38 years experience.

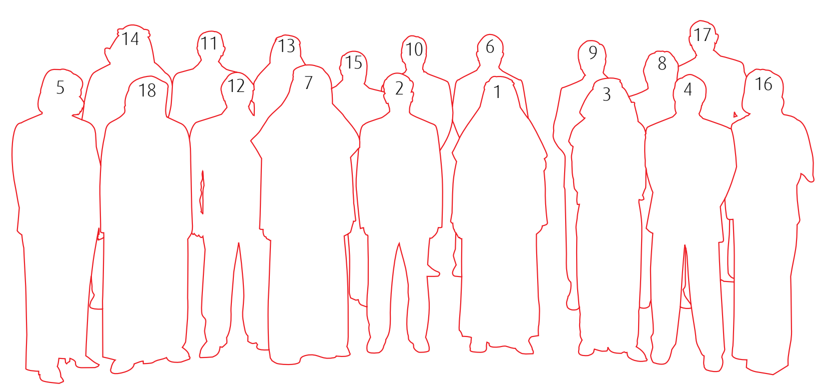
[14] Yousif Abdulla Alkhan
Assistant General Manager, Head of Information Technology. Joined the Bank in December 1989. Has 22 years experience.

[15] Jassim Abdulkarim Salman
Assistant General Manager, Head of Administration. Joined the Bank in August 2006. Has 37 years experience.

[16] Dheya Al-Shekar
Executive Senior Manager, Head of Human Capital. Joined the Bank in April 2007. Has 14 years experience.

[17] Sharaf Khawaja
Executive Senior Manager, Head of Corporate Communications & PR. Joined the Bank in July 2001. Has 19 years experience.

[18] Hasan Al-Attar
Executive Senior Manager, Head of Remedial Management. Joined the group in June 2004. Has 42 years experience.



Sharia Supervisory Board

Shaikh Abdullah Sulaiman Al Manee'a
Chairman

Shaikh Al Manee'a is a prominent, highly-respected Sharia scholar from the Kingdom of Saudi Arabia. He is the Vice-Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and a member of the Senior Scholars Council of the Kingdom of Saudi Arabia and the Awqaf Supreme Council. He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An Expert at the Islamic Fiqh Academy, Shaikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment, and has authored several books including "Paper money: truth, history and reality" and "Economic research".

Shaikh Nedham Yaqouby
Executive Member

Shaikh Yaqouby is a prominent, highly-respected Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

He is also a member of the Sharia Supervisory Boards of several regional and international banks as well as many investment funds around the world.

Shaikh Yaqouby, who holds a Masters degree from McGill University in Canada, is a PhD candidate at Wales University's Department of Sharia and Law.

He has authored four books and delivered more than 500 lectures. In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Shiakh Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Shiakh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award.

Shaikh Mohsin Al Asfoor
Member

Shaikh Al Asfoor is a prominent, highly-respected Sharia scholar from the Kingdom of Bahrain. He is a graduate of Islamic Hawza from Qom, Iran.

Shaikh Al Asfoor, who was a judge at the Supreme Sharia Court of Appeal (Jaafari), has authored more than 60 books about the Islamic Sharia.

In addition to his membership of the Ithmaar Bank Sharia Advisory Board, he is also a member of the Sharia Advisory Board of six other companies.

Shaikh Al Asfoor is a member of Curriculum Development at the Jaafari Religious Institute, as well the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank.

In years gone by, one read the caption above with some scepticism. Many perceived this chapter in an annual report to be the institution's way of communicating a 'feel good' factor; a sop to the world outside its core business.

Ithmaar Bank and its constituent entities have a long history of a CSR regime, which has so intertwined itself over the years with all its other enterprise, as to be an inseparable facet of our character and endeavour.

Our CSR activities can very broadly be categorised into two sectors – External Initiatives and Internal Initiatives.

As you read on you will realise that Ithmaar Bank is strong on education and learning, not just internally but externally as well. Our ethos of developing minds, imparting skills and empowering individuals is evident in the body of activity that is contained in this report.

EXTERNAL INITIATIVES →

At Ithmaar Bank, we believe that education and training are vital pillars that support sustainable economic growth, particularly in the case of emerging and developing nations.

EDUCATION →

Together with the Kingdom of Bahrain's Royal Charity Organisation, Ithmaar sponsored six under-privileged orphaned students in each of the last three years, enabling them to attend private schools in the Kingdom from Kindergarten 1 right through to Grade 12.

The Bank is currently sponsoring 18 students at an accredited private school in Bahrain, which is a member of the International Baccalaureate Organisation (IBO) offering the High School Diploma as well as the International Baccalaureate Diploma curricula. Also, in collaboration with an accredited local university, Ithmaar provided undergraduate degree courses for 10 orphaned students in each of the last three years. As at the time of reporting, the total number of students studying for these courses amounts to 30.

Through an arrangement and understanding with the London School of Economics, Ithmaar funded post graduate education for several promising young needy students from across the Muslim world. The sponsorship package, which we began to award in 2007, ran for a period of three years and 15 students benefited from this initiative.

During 2010, Ithmaar Bank provided on-the-job training opportunities to 65 university students from different universities across the Kingdom.

The Bank also released four of its staff for a total of 100 working hours during the work day, during which they voluntarily taught in different government schools as part of the inJAz programme. Topics they covered included – Banks in Action, Business Ethics, Success Skills and Career With A Purpose.

By way of awards and accolades, Ithmaar has received the award as one of the valued supporters of the inJAz programme for five consecutive years, at inJAz' 5th Anniversary celebrations held during the year. We also received a Certificate of Appreciation from the University of Bahrain in recognition of our continuous commitment to the University's Internship Programme.

It's not all education though; we are mindful of the need to support the health and well being of the Bahraini people and, to that end, we made a donation to the Bahrain Cancer Society.

INTERNAL INITIATIVES

At the risk of repeating ourselves, we affirm that our employees are our greatest asset at Ithmaar Bank. This year too we continued to invest heavily on the development of our people, empowering them to remain among the ranks of the most accomplished and trained in the world.

HELPING OUR EMPLOYEES REACH FULL POTENTIAL

Our total cadre stood at 242, of which a full 88 percent are Bahraini nationals. Women comprise 30 percent of our work force and this stands testimony to Ithmaar's commitment to being an equal opportunity employer.

Education and Training

During the year under review, a total of 5,420 man hours were spent on training. Our work force attended the under mentioned training opportunities during the year:

1. Short courses provided by the Bahrain Institute of Banking and Finance (BIBF) on Levy Training - 1,941 man hours.
2. Short courses provided by BIBF in accordance with Ithmaar's training requirements – 1,909 man hours.
3. Advanced Islamic Finance Diploma – 1,555 man hours.
4. In-house Anti Money Laundering Programme conducted by MLRO – 15 man hours.

The course content of these training programmes varied – from banking and finance related subjects, to computer skills and more.

Employee Engagement

There is a free flow communication regime amongst staff and management incorporating departmental meetings and an open door policy.

Rewards

Ithmaar bestowed the Employee of the Month throughout 2010, thus rewarding 13 outstanding employees.

The Bank also recognised and honoured 12 of our employees who successfully attained their professional qualifications such as the Advanced Islamic Banking Diploma and the Certificate in Personnel Practice.

THE FUTURE

Our commitment to our greatest asset never wavers – therefore developing our employees remains a key goal for 2011.

We are establishing Career Development Plans for both junior and key positions at the Bank and we will augment attainment levels with first class training opportunities. In this regard, we will establish a permanent Training Centre that will host the Bank's in-house curriculum.

We are also planning to set up a library.

Report of the Directors

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (the "Bank") for the year ended 31 December 2010, together with the audited consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year then ended.

In April 2010, the Bank successfully completed a Reorganisation with its 100% owned subsidiary, Shamil Bank of Bahrain B.S.C. (C). Effective 30 June 2010, the Bank has adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), accordingly these are the 2010 annual consolidated financial statements issued under FAS and comparatives have been restated.

PRINCIPAL ACTIVITIES →

The Bank holds an Islamic retail banking licence issued by the Central Bank of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, equipment leasing and real estate development.

CONSOLIDATED FINANCIAL POSITION AND RESULTS →

The consolidated financial position of the Group as at 31 December 2010, together with the consolidated income statement, changes in equity and cash flows for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of US$150.1 million for 2010, as compared to a net loss of US$247.4 million for 2009. Total assets at 31 December 2010 amounted to US$6,743 million (31 December 2009: US$6,106 million).

The Bank's consolidated Capital Adequacy Ratio under Basel II as at 31 December 2010 was 13.20% (2009: 12.77%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in Note 37 to the accompanying consolidated financial statements.

DIRECTORS →

The following served as Directors of the Bank during the year ended 31 December 2010:

HRH Prince Amr Mohammed Al Faisal (Chairman) (Reappointed with effect from 28 March 2010)
Khalid Abdulla-Janahi (Reappointed with effect from 28 March 2010)
Tunku Dato' Ya'acob Bin Tunku Abdullah (Reappointed with effect from 28 March 2010)
Abdulhameed M. Aboumoussa (Reappointed with effect from 28 March 2010)
Sheikh Mohammed Youseef El Khereiji (Reappointed with effect from 28 March 2010)
Shaikha Hissah bint Saad Al-Sabah (Reappointed with effect from 28 March 2010)
Zamil Abdullah Al-Zamil (Appointed with effect from 28 March 2010)
Nabeel Khaled Mohamed Kanoo (Appointed with effect from 28 March 2010)
Mohammed A. Rahman Bucheerei (Appointed with effect from 28 March 2010)
Khalil Nooruddin (Resigned with effect from 16 September 2010)
Michael P. Lee (Resigned with effect from 27 March 2010)
Mohamed Hussain (Resigned with effect from 27 March 2010)
Kenneth C. Borda (Resigned with effect from 28 February 2010)

DIRECTORS' SITTING FEES

Directors' sitting fees for 2010 amounted to US$320,000 (2009: US$516,000).

INTERESTS OF DIRECTORS

The interests of the Directors in the shares of the Bank are disclosed below:

Name	Number of Shares	
	31 December 2010	31 December 2009
HRH Prince Amr Mohammed Al Faisal	**100,000**	100,000
Khalid Abdulla-Janahi	**20,749,693**	20,749,693
Tunku Dato' Ya'acob Bin Tunku Abdullah	**40,982**	40,982
Abdulhameed M. Aboumoussa	**–**	–
Sheikh Mohammed Youseef El Khereiji	**5,280,000**	5,280,000
Shaikha Hissah bint Saad Al-Sabah	**41,800**	41,800
Zamil Abdullah Al-Zamil	**–**	–
Nabeel Khaled Mohamed Kanoo	**–**	–
Mohammed A. Rahman Bucheerei	**105,600**	105,600

DIVIDEND

No dividend has been proposed for 2010 (2009: Nil).

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2011.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
5 March 2011

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2010

Report of the Sharia Supervisory Board

In the Name of Allah, the Beneficent, the Merciful

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2010 UNTIL 31 DECEMBER 2010, CORRESPONDING TO THE PERIOD FROM 16 MUHARRAM 1431 H UNTIL 25 MUHARRAM 1432 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. performed the following acts during the financial year from 1 January 2010 until 31 December 2010:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the various management teams towards Sharia-compliant transactions.

2. Studied different mechanisms of financing and prepared its documents with the concerned departments in order to develop products.

3. Examined the books, records and transactions through the internal Sharia Audit Department and auditing some of their samples as per established auditing standards.

4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.

We had reviewed the principles used, contracts, transactions and applications that were put forward by the Bank during the period from 1 January 2010 to 31 December 2010, and we had conducted the required supervision to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that were issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia and AAOIFI accounting standards. Our responsibility is to express an independent opinion based on our observation of the Bank, and prepare a report.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

I: WITH REGARD TO THE BANK'S BUSINESS IN GENERAL:

a. The Bank's overall investment activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.

b. Gains made from Sharia repugnant sources were avoided and transferred to charity funds.

c. All the amounts collected as customers' donations and commitments on late payments were posted to the Donations Fund Account.

d. The responsibility for paying Zakat by shareholders is their own.

II: CONVENTIONAL ASSETS AND LIABILITIES TRANSFERRED FROM ITHMAAR BANK:

The Sharia Supervisory Board quantified and reviewed the conventional assets and liabilities transferred from Ithmaar Bank post the conversion and reorganisation and issued a fatwa that allows the Bank to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period provided that the Bank appropriately discloses to its shareholders in its annual reports all amounts of income and expenses associated with these conventional assets and liabilities. This fatwa conforms to the provisions of Standard 6 of AAOIFI Sharia Standards.

The Sharia Supervisory Board continuously reviews progress in this respect and guides the management of the Bank on appropriate actions to be taken in respect of each asset and liability.

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2010 UNTIL 31 DECEMBER 2010, CORRESPONDING TO THE PERIOD FROM 16 MUHARRAM 1431 H UNTIL 25 MUHARRAM 1432 H. (continued)

To ensure compliance with its fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of the Bank for the year ended 31 December 2010 and has satisfied itself that the Bank has appropriately disclosed the amount of income and expenses associated with the conventional assets and liabilities. Accordingly, the Sharia Supervisory Board guides the shareholders of the Bank to dispose of interests and impermissible earnings which has been calculated, in this year's financial statements, at negative 1.55 cents per share.

We pray to Almighty Allah to guide the Bank and its employees and help them in developing Islamic products and continue to comply with and implement them and to grant them success for everything he pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Nizam Yacooby
Member

Manama, Kingdom of Bahrain

Independent Auditors' Report

to the Shareholders of Ithmaar Bank B.S.C.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 31 December 2010 and the related consolidated income statement, consolidated statements of cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the 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 consolidated 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 2010 and the results of its operations, its cash flows, changes in owners' equity and 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 Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

REPORT ON REGULATORY REQUIREMENTS

Further, as required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the term of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2010.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
8 March 2011

Consolidated Statement of Financial Position

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2010 (Audited)	At 31 December 2009 (Restated)
ASSETS			
Cash, balances with banks and central banks	3	**732,683**	651,048
Commodity placements with banks, financial and other institutions	4	**176,408**	388,231
Murabaha and other financing	5	**2,530,094**	2,189,501
Investments:			
Sukuk		**50,156**	32,334
Mudaraba	6	**26,911**	24,296
Investment in associates	7	**664,988**	706,706
Investment securities	8	**1,190,680**	931,664
Restricted investment accounts	9	**204,278**	110,958
Assets acquired for leasing	10	**70,536**	70,710
Investment in real estate	11	**389,592**	416,964
Other assets	12	**287,271**	217,170
Fixed assets	13	**145,382**	107,745
Intangible assets	14	**274,590**	258,607
Total assets		**6,743,569**	6,105,934
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts		**684,162**	455,265
Due to banks, financial and other institutions	15	**1,714,025**	1,830,554
Due to investors	16	**1,970,795**	1,640,393
Other liabilities	17	**288,516**	259,312
Total liabilities		**4,657,498**	4,185,524
Equity of unrestricted investment account holders	18	**1,195,963**	983,011
Minority interest	19	**236,092**	225,964
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND MINORITY INTEREST		**6,089,553**	5,394,499
Share capital	20	**671,254**	568,832
Reserves	20	**(17,238)**	142,603
Total owners' equity		**654,016**	711,435
Total liabilities, equity of unrestricted investment account holders, minority interest and owners' equity		**6,743,569**	6,105,934

These consolidated financial statements were approved by the Board of Directors on 5 March 2011 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Income Statement

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2010 (Audited)	At 31 December 2009 (Restated)
INCOME			
Income from unrestricted investment accounts		**61,546**	48,835
Less: return to unrestricted investment accounts and provisions		**(56,395)**	(44,796)
Group's share of income from unrestricted investment accounts as a Mudarib		**5,151**	4,039
Group's share of income from restricted investment accounts as a Mudarib	22	**4,618**	6,768
Total income from investment accounts (funds under management)		**9,769**	10,807
Income from financing and investments	23	**102,717**	88,851
Income from related party transactions	36	**28,040**	7,706
Gain arising on acquisition of a business (net)	40	**19,737**	-
Other income	24	**54,927**	4,672
Total income		**215,190**	112,036
EXPENSES			
Administrative and general expenses	25	**(130,994)**	(122,031)
Depreciation and amortisation	13,14	**(32,763)**	(34,046)
Total expenses		**(163,757)**	(156,077)
Net income/(loss) before provision for impairment and overseas taxation		**51,433**	(44,041)
Provision for impairment	27	**(226,809)**	(206,905)
Provision write back on related party transaction	27,36	**29,423**	-
Provision for impairment - net		**(197,386)**	(206,905)
Net loss before overseas taxation		**(145,953)**	(250,946)
Overseas taxation	28	**6,341**	(562)
NET LOSS FOR THE YEAR		**(139,612)**	(251,508)
Attributable to:			
Equity holders of the Bank		**(150,149)**	(247,415)
Minority interest	19	**10,537**	(4,093)
		(139,612)	(251,508)
Basic and diluted earnings per share	21	**US cts (5.88)**	US cts (11.31)

These consolidated financial statements were approved by the Board of Directors on 5 March 2011 and signed on their behalf by:

HRH Prince Amr Mohammed Al Faisal
Chairman

Mohammed Bucheerei
CEO and Director

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2010

(Expressed in thousands of United States Dollars unless otherwise stated)

		Reserves								
	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment property fair value reserve	Foreign currency translation	Accumulated losses	Total reserves	Total owners' equity
At 1 January 2010	**568,832**	**161,132**	**38,090**	**150,827**	**1,989**	**–**	**59**	**(209,494)**	**142,603**	**711,435**
Reorganisation adjustments (Note 41)	–	–	–	(96,211)	8,676	–	(283)	87,818	–	–
At 1 January 2010 (Restated)	**568,832**	**161,132**	**38,090**	**54,616**	**10,665**	**–**	**(224)**	**(121,676)**	**142,603**	**711,435**
Increase in share capital (Note 20)	103,025	–	–	–	–	–	–	–	–	103,025
Costs related to rights issue	–	(10,000)	–	–	–	–	–	–	(10,000)	(10,000)
Treasury shares purchased	(2,961)	725	–	–	–	–	–	–	725	(2,236)
Treasury shares sold	2,358	(1,890)	–	–	–	–	–	–	(1,890)	468
Net loss for the year	–	–	–	–	–	–	–	(150,149)	(150,149)	(150,149)
Movement in fair value of available-for-sale investments	–	–	–	–	(173)	–	–	–	(173)	(173)
Disposal of subsidiaries (Note 36)	–	–	–	501	–	–	–	3,169	3,670	3,670
Movement in deferred tax relating to available-for-sale investments	–	–	–	–	(944)	–	–	–	(944)	(944)
Transfer to income statement due to impairment of investment securities	–	–	–	–	4,889	–	–	–	4,889	4,889
Transfer to income statement due to disposal of available-for-sale investments	–	–	–	–	(14,124)	–	–	–	(14,124)	(14,124)
Movement in fair value of investment property	–	–	–	–	–	1,015	–	–	1,015	1,015
Foreign currency translation adjustment	–	–	–	–	(170)	–	9,830	(2,520)	7,140	7,140
Transfer from general reserve	–	–	–	(4,391)	–	–	–	4,391	–	–
At 31 December 2010	**671,254**	**149,967**	**38,090**	**50,726**	**143**	**1,015**	**9,606**	**(266,785)**	**(17,238)**	**654,016**

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2009
(Expressed in thousands of United States Dollars unless otherwise stated)

			Reserves						
	Share capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Foreign currency translation	Retained earnings/ (Accumulated losses)	Total reserves	Total owners' equity
At 1 January 2009 (Restated)	**527,956**	**209,541**	**38,090**	**107,679**	**(42,450)**	**905**	**82,188**	**395,953**	**923,909**
Issue of bonus shares	54,362	(54,362)	–	–	–	–	–	(54,362)	–
Treasury shares purchased	(19,322)	5,973	–	–	–	–	–	5,973	(13,349)
Treasury shares sold	5,836	(20)	–	–	–	–	–	(20)	5,816
Net loss for the year	–	–	–	–	–	–	(247,415)	(247,415)	(247,415)
Movement in fair value of available-for-sale investments	–	–	–	–	4,723	–	–	4,723	4,723
Movement in deferred tax relating to available-for-sale investments	–	–	–	–	(1,184)	–	–	(1,184)	(1,184)
Movement in fair value due to impairment of investment securities	–	–	–	–	42,925	–	–	42,925	42,925
Movements in fair value reserve of associated companies	–	–	–	–	147	–	–	147	147
Transfer to income statement due to disposal of available-for-sale investments	–	–	–	–	(2,099)	–	–	(2,099)	(2,099)
Foreign currency translation adjustment	–	–	–	–	(73)	(846)	(565)	(1,484)	(1,484)
Transfer to general reserve	–	–	–	43,148	–	–	(43,148)	–	–
Appropriation to Ithmaar Education and Training Fund	–	–	–	–	–	–	(554)	(554)	(554)
At 31 December 2009 (Restated)	**568,832**	**161,132**	**38,090**	**150,827**	**1,989**	**59**	**(209,494)**	**142,603**	**711,435**

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2010 (Audited)	At 31 December 2009 (Restated)
OPERATING ACTIVITIES			
Net loss before overseas taxation		**(145,953)**	(250,946)
Adjustments for:			
Depreciation and amortisation	13,14	**32,763**	34,046
Gain arising on acquisition of a business	40	**(19,737)**	–
Income from associated companies	23	**(27,583)**	(27,072)
Provision for impairment	27	**197,386**	206,904
Operating profit/(loss) before changes in operating assets and liabilities		**36,876**	(37,068)
Balances with banks maturing after ninety days and with central bank relating to minimum reserve requirement		**14,498**	153,417
(Increase)/decrease in operating assets			
Murabaha and other financing		**(344,933)**	44,184
Other assets		**(95,155)**	(98,221)
Increase/(decrease) in operating liabilities			
Customers' current accounts		**228,897**	(15,337)
Due to banks, financial and other institutions		**(116,529)**	(101,017)
Due to investors		**330,402**	171,879
Other liabilities		**10,145**	(91,947)
Increase in equity of unrestricted investment account holders		**212,952**	299,709
Taxes paid		**(28,343)**	(45,836)
Net cash provided by operating activities		**248,810**	279,763
INVESTING ACTIVITIES			
Net (increase)/decrease			
Mudaraba		**(2,615)**	84,848
Sukuk		**(18,703)**	(7,175)
Investment in restricted investment accounts		**(78,103)**	(48,000)
Assets acquired for leasing		**174**	(49,321)
Investment securities		**(321,594)**	(343,548)
Investment in associates		**–**	(83,404)
Dividend received from associates	7	**15,766**	12,966
Purchase of fixed assets		**(48,197)**	(3,786)
Investment in real estate		**(20,389)**	(41,644)
Net cash used in investing activities		**(473,661)**	(479,064)

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended At 31 December 2010 (Audited)	At 31 December 2009 (Restated)
FINANCING ACTIVITIES			
Treasury shares purchased		**(2,236)**	(13,349)
Treasury shares sold		**468**	5,816
Share capital	20	**103,025**	–
Net cash provided by/(used in) financing activities		**101,257**	(7,533)
Foreign currency translation adjustments		**7,904**	2,732
Net decrease in cash and cash equivalents		**(115,690)**	(204,102)
Cash and cash equivalents at the beginning of the year		**818,216**	1,022,318
Cash and cash equivalents at the end of the year	4	**702,526**	818,216

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2010
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2010 (Restated, refer note 42)	Net Deposits/ (Withdrawals)	Gross Income	Mudarib's Fee	At 31 December 2010
Aldar Private Equity Fund*	171,824	–	–	(1,500)	170,324
Dilmunia Development Fund I L.P.*	182,323	(4,373)	–	(2,081)	175,869
Shamil Bosphorus Modaraba*	99,514	2,921	–	–	102,435
European Real Estate Portfolio*	24,660	(1,846)	–	–	22,814
Shamil Navigator*	15,385	(15,385)	–	–	–
Shamil China Fund*	25,574	(2,795)	–	–	22,779
US Development Opportunities Fund*	21,547	(3,528)	–	–	18,019
Shamil Jawaher 1	50,735	(15)	–	–	50,720
Shamil Jawaher 2	7,764	(1,520)	–	–	6,244
Bridge Finance Placements	20,200	(20,200)	–	–	–
European Real Estate Placements*	77,954	(5,740)	220	(211)	72,223
US Real Estate Placements*	132,719	15,353	19	(439)	147,652
PPSC Placements	106,536	734,014	1,474	(282)	841,742
Trade Finance Placements	1,390	(444)	–	(3)	943
Listed and non-listed equities	38,343	3,434	1,120	(102)	42,795
Other clients funds	489	(32)	3	–	460
Total	976,957	699,844	2,836	(4,618)	1,675,019
Funds managed on agency basis	**246,493**	**(151,113)**	**–**	**–**	**95,380**
	1,223,450	**548,731**	**2,836**	**(4,618)**	**1,770,399**

** Income will be recognised and distributed at the time of disposal of the underlying investments.*

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2009
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2009	Net Deposits/ (Withdrawals)	Gross Income	Mudarib's Fee	At 31 December 2009
Aldar Private Equity Fund*	174,824	–	–	(3,000)	171,824
Dilmunia Development Fund I L.P.*	185,099	–	–	(2,775)	182,324
Makkah Real Estate Fund 1*	27,052	(27,052)	–	–	–
European Real Estate Portfolio*	23,940	720	–	–	24,660
Shamil Bosphorus Modaraba*	92,054	7,460	–	–	99,514
Shamil Navigator*	16,525	(1,140)	–	–	15,385
Shamil China Fund*	35,663	(10,089)	–	–	25,574
US Development Opportunities Fund*	21,547	–	–	–	21,547
Shamil Jawaher 1	57,592	(6,857)	–	–	50,735
Shamil Jawaher 2	23,699	(15,935)	–	–	7,764
Bridge Finance Placements	38,855	(18,614)	–	(41)	20,200
European Real Estate Placements*	83,893	84,362	330	(292)	168,293
US Real Estate Placements*	213,297	(27,967)	1,450	(462)	186,318
PPSC Placements	75,084	35,159	310	(111)	110,442
Trade Finance Placements	2,610	(1,213)	–	(7)	1,390
Listed and non-listed equities	50,673	(11,602)	–	(80)	38,991
Other clients funds	476	13	–	–	489
Total	**1,122,883**	**7,245**	**2,090**	**(6,768)**	**1,125,450**
Funds managed on agency basis	244,343	2,150	–	–	246,493
Syndications	5,000	(5,000)	–	–	–
	1,372,226	**4,395**	**2,090**	**(6,768)**	**1,371,943**

* *Income will be recognised and distributed at the time of disposal of the underlying investments.*

The notes on pages 86 to 122 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010
(Expressed in thousands of United States Dollars unless otherwise stated)

1. INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB). On 14 April 2010 the CBB approved the reorganisation of the Bank and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C (C) (the "Shamil Bank") into one entity under Ithmaar Bank B.S.C with an Islamic retail banking license. As a result, Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010.

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful, equipment leasing and real estate development.

The Bank's activities are supervised by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Bank's shares are listed for trading on the Bahrain and Kuwait Stock Exchanges.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment account holders and restricted investment accounts. In respect of equity of unrestricted investment account holders, the investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment account holders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from mingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 11 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned		Country of	Principal business
	Voting	Economic	Incorporation	activity
Faisal Private Bank (Switzerland) S.A.	100	100	Switzerland	Banking
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
Faysal Bank Limited	66	66	Pakistan	Banking
Sakana Holistic Housing Solutions B.S.C. (C)	63	50	Kingdom of Bahrain	Mortgage finance
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Marina Reef Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate

During the year, the Bank sold its investments in four subsidiaries, namely DMI Jersey Limited, MFAI Jersey Limited, Faisal Finance Jersey Limited and Rayten Limited to a related party (Note 36).

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of the Bank.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

Effective 30 June 2010, the Bank has adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Accordingly, the comparatives have been restated as explained in note 42.

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar Bank converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2010 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 39.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2010.

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

(a) BASIS OF PREPARATION

(i) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations 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 consolidated statement of changes in owners equity.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment account holders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financials statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(ii) Foreign currency transactions and balances

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 Bank's 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale investments are included in investments fair value reserve.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(a) BASIS OF PREPARATION (continued)

(ii) Foreign currency transactions and balances (continued)

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, shall be recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount shall be recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iii) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year/period. 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.

(a) Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments designated as held-for-trading, held-to-maturity or available-for-sale investments. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

(b) Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs 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 SPEs activities, its exposure to the risks and rewards, as well as about the Group's ability to make operational decisions for the SPE.

(c) Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

(d) Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Bank to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets and anticipated support from major shareholder.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(b) MURABAHA AND OTHER FINANCING

Murabaha financing is stated at cost less allowance for doubtful receivables.

Other financing represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financing.

(c) INVESTMENTS

(i) Investments held-to-maturity

Investments where the Group has both the intent and the ability to hold them to maturity are classified as held-to-maturity. Investments held-to-maturity are carried at amortised cost less provision for impairment in value.

(ii) Investments available-for-sale

Investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of available-for-sale are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

Investment securities available-for-sale are initially recognised at cost plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Investment securities available-for-sale are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity or equity of unrestricted investment account holders under "Investments fair value reserve", until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

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

(iii) Investments held-for-trading

An investment is 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. Investments held-for-trading shall be recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period investment held-for-trading shall be re-measured at their fair value and shall be recognised in the consolidated income statement.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(c) INVESTMENTS (continued)

(iv) Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment account holders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

(v) Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment properties fair value reserves. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment account holders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement. Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

(vi) Mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

(vii) Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

(d) ASSETS ACQUIRED FOR LEASING (IJARAH)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

(e) MUSHARAKA FINANCING

Musharaka financing is stated at cost less provision for impairment.

(f) FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Aircraft	25 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(f) FIXED ASSETS (continued)

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

(g) REVENUE RECOGNITION

(i) Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

(ii) Profit on Murabaha and other financing

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit is not accrued on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective return method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

(iii) Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

(iv) Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognised to the extent such losses are being deducted from the Mudaraba capital.

(v) Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

(vi) Dividend income

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

(vii) Fees and commissions

Fees and commissions are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(h) TREASURY SHARES

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(I) CURRENT TAXATION

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(j) DEFERRED TAXATION

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

(k) CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(l) PROVISION FOR STAFF BENEFITS

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

(m) PROFIT ALLOCATION BETWEEN GROUP AND INVESTMENT ACCOUNT HOLDERS

The Group holds separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting provisions, profit equalisation reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account. In case the provision is no longer required, the provision will be transferred to the profit equalization reserve.

Some profit incentives are recognised based on term of the contracts with restricted account holders.

(n) GOODWILL

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment losses on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(n) GOODWILL (continued)

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

(o) INTANGIBLE ASSETS

(a) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

(b) Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

(p) EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

Under the equity of unrestricted investment account holders (URIA), the investment account holder authorizes the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment account holders are measured on the same basis of various category of the assets as set out above. The amount appropriated to this reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit and profit to investment account holders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment account holders.

(q) RESTRICTED INVESTMENT ACCOUNTS

Under the restricted investment accounts (RIA), the investment account holders impose certain restrictions as to where, how and for that purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at cost.

(r) DUE TO INVESTORS

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors".

(S) COLLATERALS

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financing. The Group's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

(Expressed in thousands of United States Dollars unless otherwise stated)

3. CASH, BALANCES WITH BANKS AND CENTRAL BANK

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central bank	**113,725**	**-**	**113,725**	56,539	-	56,539
Cash, balances with banks and central bank	**618,958**	**-**	**618,958**	594,509	-	594,509
	732,683	**-**	**732,683**	651,048	-	651,048

4. COMMODITY PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	**157,932**	**25,001**	**182,933**	306,729	88,027	394,756
Less: Provision	**(6,525)**	**-**	**(6,525)**	(6,525)	-	(6,525)
	151,407	**25,001**	**176,408**	300,204	88,027	388,231

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Cash, balances with banks and central bank	**732,683**	**-**	**732,683**	651,048	-	651,048
Commodity placements with banks, financial and other institutions - net	**151,407**	**25,001**	**176,408**	300,204	88,027	388,231
Less: Placements maturing after ninety days	**(67,839)**	**(25,001)**	**(92,840)**	(139,523)	(25,001)	(164,524)
Less: balances with central bank relating to minimum reserve requirement	**(113,725)**	**-**	**(113,725)**	(56,539)	-	(56,539)
	702,526	**-**	**702,526**	755,190	63,026	818,216

(Expressed in thousands of United States Dollars unless otherwise stated)

5. MURABAHA AND OTHER FINANCING

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha financing	**661,477**	**610,043**	**1,271,520**	446,657	582,419	1,029,076
Other financing	**1,538,884**	**–**	**1,538,884**	1,300,162	–	1,300,162
Murabaha and other financing	**2,200,361**	**610,043**	**2,810,404**	1,746,819	582,419	2,329,238
Less: Provisions	**(250,051)**	**(30,259)**	**(280,310)**	(111,141)	(28,596)	(139,737)
	1,950,310	**579,784**	**2,530,094**	1,635,678	553,823	2,189,501

Other financing represents conventional loans and advances made by a subsidiary of the Bank.

The movement in provisions is as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**111,141**	**28,596**	**139,737**	75,793	16,707	92,500
Charge for the year	**44,681**	**3,400**	**48,081**	57,022	11,889	68,911
Acquisition of a business (note 40)	**99,320**	**–**	**99,320**	–	–	–
Exchange differences	**(5,091)**	**(1,737)**	**(6,828)**	(21,674)	–	(21,674)
At 31 December	**250,051**	**30,259**	**280,310**	111,141	28,596	139,737

6. MUDARABA

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	**3,529**	**38,171**	**41,700**	–	39,085	39,085
Less: provisions	**–**	**(14,789)**	**(14,789)**	–	(14,789)	(14,789)
	3,529	**23,382**	**26,911**	–	24,296	24,296

(Expressed in thousands of United States Dollars unless otherwise stated)

6. MUDARABA (continued)

The movement in provisions is as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**–**	**14,789**	**14,789**	–	12,605	12,605
Charge for the year	**–**	**–**	**–**	–	2,184	2,184
At 31 December	**–**	**14,789**	**14,789**	–	14,789	14,789

7. INVESTMENTS IN ASSOCIATES

Investments in associated companies, as adjusted for the Bank's share of their results (Note 23), comprise:

Name of company	**2010**	2009	% of Shareholding	Country	Activity
Unlisted:					
Solidarity Group Holding B.S.C. (C)	**70,215**	74,650	34	Bahrain	Takaful
First Leasing Bank B.S.C. (C)	**44,817**	35,467	43	Bahrain	Banking
Citic International Assets Management Limited	**66,460**	60,567	20	Hong Kong	Asset management
Sanpak Engineering	**698**	1,134	31	Pakistan	Manufacturing
Islamic Company for Production, Printing and Packing Materials "Icopack"	**3,394**	3,152	23	Egypt	Trading
Misr Company for Packing Materials "Egywrap"	**7,867**	8,031	23	Egypt	Trading
Faysal Asset Management Limited	**1,046**	969	30	Pakistan	Asset management
Ithraa Capital	**4,604**	5,583	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	**86,605**	84,404	29	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	**2,020**	2,020	40	Bahrain	Real estate
Islamic Trading Company E.C	**1,974**	2,876	24	Bahrain	Trading
Emerging Markets Partnership Bahrain B.S.C (C)	**838**	665	40	Bahrain	Asset management
Hupomone Capital Partners (HCP)	**–**	–	20	Singapore	Asset management
CIAM - Shamil Asset Management Co. Ltd.	**174**	10	50	Hong Kong	Asset management
Others	**–**	471	–	–	–
Listed:					
BBK B.S.C	**374,276**	426,707	25	Bahrain	Banking
	664,988	706,706			

Investments in associates include conventional investments totaling $577 million (2009: $613 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES (continued)

The Bank's share of net assets of its associated companies includes the following movements analysed as follows:

	2010	2009
At 1 January	**706,706**	612,602
Share of profit before tax	**28,373**	27,390
Share of tax	**(790)**	(318)
Dividends received	**(15,766)**	(12,966)
Share of fair value reserve	**(6,429)**	(9,676)
Additions	**8,000**	83,405
Reclassifications	**–**	16,099
Provisions	**(53,677)**	–
Amortisation of intangibles	**(6,748)**	(6,312)
Exchange differences	**5,319**	(3,518)
At 31 December	**664,988**	706,706

Included in investment in associates at 31 December 2010 is $96.6 million (2009: $150.3 million) of goodwill. The movement is as follows:

	2010	2009
At 1 January	**150,274**	150,274
Provision	**(53,677)**	–
At 31 December	**96,597**	150,274

The Bank has received in-principle approval from the Central Bank of Bahrain on 6 December 2010 for the proposed acquisition of the remaining shares in First Leasing Bank B.S.C. (C) through a share swap, subject to compliance with various conditions.

8. INVESTMENT SECURITIES

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities available-for-sale	**944,360**	**90,035**	**1,034,395**	714,830	92,052	806,882
Investment securities held to maturity	**114,945**	**–**	**114,945**	108,381	–	108,381
Trading securities	**41,340**	**–**	**41,340**	16,401	–	16,401
	1,100,645	**90,035**	**1,190,680**	839,612	92,052	931,664
Investment securities available-for-sale						
- Listed	**108,311**	**1,323**	**109,634**	152,278	1,486	153,764
- Unlisted	**836,049**	**88,712**	**924,761**	562,552	90,566	653,118
	944,360	**90,035**	**1,034,395**	714,830	92,052	806,882

Investment securities include conventional investments totaling $931 million (2009: $616 million) made by a subsidiary of the Bank.

(Expressed in thousands of United States Dollars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

The movement in investment securities available-for-sale is summarised as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**714,830**	**92,052**	**806,882**	451,638	53,792	505,430
Additions	**1,422,611**	**–**	**1,422,611**	666,543	55,458	722,001
Disposals	**(1,130,809)**	**(3,644)**	**(1,134,453)**	(383,951)	(13,532)	(397,483)
Net gains/(losses) from changes in fair value	**(10,768)**	**2,995**	**(7,773)**	21,068	(3,666)	17,402
Exchange differences	**(11,490)**	**–**	**(11,490)**	(16,883)	–	(16,883)
Provision for impairment	**(40,014)**	**(1,368)**	**(41,382)**	(23,585)	–	(23,585)
At 31 December	**944,360**	**90,035**	**1,034,395**	714,830	92,052	806,882

The movement in investment securities held to maturity is summarised as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**108,381**	**–**	**108,381**	111,798	–	111,798
Additions	**6,564**	**–**	**6,564**	–	–	–
Maturity	**–**	**–**	**–**	(3,417)	–	(3,417)
At 31 December	**114,945**	**–**	**114,945**	108,381	–	108,381

The movement in trading securities is summarised as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**16,401**	**–**	**16,401**	–	–	–
Additions	**1,447,869**	**–**	**1,447,869**	16,401	–	16,401
Disposal	**(1,422,930)**	**–**	**(1,422,930)**	–	–	–
At 31 December	**41,340**	**–**	**41,340**	16,401	–	16,401

(Expressed in thousands of United States Dollars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

The movement in provisions relating to investment securities is as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**50,072**	**–**	**50,072**	21,135	–	21,135
Charge for the year	**64,437**	**1,368**	**65,805**	23,585	–	23,585
Write back during the year	**(24,423)**	**–**	**(24,423)**	–	–	–
Exchange differences	**15,882**	**1,940**	**17,822**	5,352	–	5,352
At 31 December	**105,968**	**3,308**	**109,276**	50,072	–	50,072

9. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	**138,133**	**83,291**	**221,424**	30,006	80,952	110,958
Less: provisions	**(17,146)**	**-**	**(17,146)**	–	–	–
	120,987	**83,291**	**204,278**	30,006	80,952	110,958

The movement in provisions is as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**–**	**–**	**–**	–	5,431	5,431
Charge for the year	**17,146**	**–**	**17,146**	–	–	–
Reclassified	**–**	**–**	**–**	–	(5,431)	(5,431)
At 31 December	**17,146**	**–**	**17,146**	–	–	–

(Expressed in thousands of United States Dollars unless otherwise stated)

10. ASSETS ACQUIRED FOR LEASING

	31 December 2010			31 December 2009		
	Cost	**Accumulated depreciation**	**Net book amount**	Cost	Accumulated depreciation	Net book amount
Property	**106,856**	**(36,320)**	**70,536**	81,281	(10,571)	70,710

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2010	31 December 2009
Relating to owners	**58,784**	55,658
Relating to unrestricted investment accounts	**11,752**	15,052
	70,536	70,710

11. INVESTMENT IN REAL ESTATE

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	**406,473**	**-**	**406,473**	414,823	2,141	416,964
Less: provisions	**(16,881)**	**-**	**(16,881)**	–	–	–
	389,592	**-**	**389,592**	414,823	2,141	416,964

Fair value of investment properties at the year end approximates their carrying value.

The movement in provisions for investment in real estate is as follows:

	2010			2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**–**	**–**	**–**	–	–	–
Charge for the year	**16,881**	**–**	**16,881**	–	–	–
At 31 December	**16,881**	**–**	**16,881**	–	–	–

(Expressed in thousands of United States Dollars unless otherwise stated)

12. OTHER ASSETS

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Accrued rentals receivable - net of provisions	**952**	**8,471**	**9,423**	1,652	13,931	15,583
Due from employees	**41,985**	**–**	**41,985**	8,682	–	8,682
Receivable from customers	**18,882**	**11,208**	**30,090**	58,594	11,205	69,799
Due from related parties	**63,509**	**–**	**63,509**	48,645	–	48,645
Receivable from investment projects	**25,951**	**–**	**25,951**	25,404	–	25,404
Taxes - deferred	**55,324**	**–**	**55,324**	5,665	–	5,665
Taxes - current	**13,114**	**–**	**13,114**	–	–	–
Assets acquired against claims	**17,985**	**–**	**17,985**	18,952	–	18,952
Prepayments	**15,103**	**–**	**15,103**	3,707	–	3,707
Other	**12,154**	**2,633**	**14,787**	19,379	1,354	20,733
	264,959	**22,312**	**287,271**	190,680	26,490	217,170

13. FIXED ASSETS

	Relating to owners 31 December 2010				Relating to owners 31 December 2009			
	Cost	**Accumulated depreciation**	**Provision for impairment**	**Net book amount**	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	**76,569**	**(2,961)**	**–**	**73,608**	56,357	(337)	–	56,020
Leasehold improvements	**48,571**	**(19,236)**	**–**	**29,335**	17,703	(8,121)	–	9,582
Furniture and equipment	**61,047**	**(45,282)**	**–**	**15,765**	33,689	(21,187)	–	12,502
Aircrafts and motor vehicles	**36,935**	**(10,261)**	**–**	**26,674**	39,368	(4,520)	(5,207)	29,641
	223,122	**(77,740)**	**–**	**145,382**	147,117	(34,165)	(5,207)	107,745

Depreciation charge for the year ended 31 December 2010 amounted to $10.6 million (2009: $13.6 million)

14. INTANGIBLE ASSETS

	Relating to owners 31 December 2010			Relating to owners 31 December 2009		
	Cost	**Accumulated amortisation**	**Net book amount**	Cost	Accumulated amortisation	Net book amount
Goodwill	**87,830**	**(6,415)**	**81,415**	81,683	–	81,683
Customer relations	**83,709**	**(24,737)**	**58,972**	77,160	(14,125)	63,035
Core deposits	**155,547**	**(54,800)**	**100,747**	134,369	(26,246)	108,123
Other*	**45,863**	**(12,407)**	**33,456**	12,401	(6,635)	5,766
	372,949	**(98,359)**	**274,590**	305,613	(47,006)	258,607

Amortisation charge (including for associates) for the year ended 31 December 2010 amounted to $22.2 million (2009: $20.4 million).

(Expressed in thousands of United States Dollars unless otherwise stated)

14. INTANGIBLE ASSETS (continued)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2010	31 December 2009
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	**66,070**	66,070
Faysal Bank Limited	**15,345**	15,613
	81,415	81,683

**Other intangible assets include $30 million arising from acquisition of a business (refer note 40). Other intangible assets also include $3.5 million at 31 December 2010 (2009: $4.8 million) of computer software related to core banking systems, which is being amortised over five years.*

15. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2010			31 December 2009		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to Banks	**1,253,473**	**–**	**1,253,473**	1,830,481	–	1,830,481
Due to financial and other institutions	**460,552**	**–**	**460,552**	73	–	73
	1,714,025	**–**	**1,714,025**	1,830,554	–	1,830,554

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangements with maturities ranging from one year to five years.

At 31 December 2010, there were collateralised borrowings in aggregate $188.8 million (2009: $213 million).

Cash dividends amounting to $3.8 million (2009: $2.9 million) on certain shares pledged as collateral was directly received by the lender during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

Due to banks, financial and other institutions include deposits totalling $878.1 million from three counterparties having contractual maturity of less than six months. Out of these, deposits totalling $649.2 million are from two counterparties which are subject to freeze and originating from jurisdiction under US and UN sanctions.

16. DUE TO INVESTORS

	Relating to owners	
	31 December 2010	31 December 2009
Due to corporate institutions	**1,021,204**	1,289,904
Due to individuals	**892,572**	256,658
Due to financial institutions	**57,019**	93,831
	1,970,795	1,640,393

Due to investors represents conventional deposits accepted by a subsidiary of the Bank.

Due to investors includes floating rate unsecured term finance certificates issued by a subsidiary.

(Expressed in thousands of United States Dollars unless otherwise stated)

17. OTHER LIABILITIES

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Provision for taxation – current	**6,590**	**–**	**6,590**	8,112	–	8,112
Provision for taxation – deferred	**4,915**	**–**	**4,915**	–	–	–
Derivative financial instruments liabilities	**44,698**	**–**	**44,698**	–	–	–
Staff benefits	**16,641**	**–**	**16,641**	20,488	–	20,488
Security deposits	**34,196**	**–**	**34,196**	38,916	–	38,916
Accrued expenses	**18,716**	**6,086**	**24,802**	22,408	–	22,408
Due to related companies	**16,293**	**–**	**16,293**	4,626	–	4,626
Advances from customers	**53,479**	**–**	**53,479**	66,495	–	66,495
Demand draft/pay orders	**53,541**	**–**	**53,541**	43,456	–	43,456
Due to restricted investment accounts	**–**	**–**	**–**	22,617	–	22,617
Others	**19,237**	**14,124**	**33,361**	21,050	11,144	32,194
	268,306	**20,210**	**288,516**	248,168	11,144	259,312

Due to restricted investment accounts represents funds received prior to year-end by the Bank on behalf of its restricted investment account holders.

18. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

The funds received from unrestricted investment account holders are invested on their behalf without recourse to the Group as follows:

	Notes	**31 December 2010**	31 December 2009
Commodity placement with banks, financial and other institutions	4	**25,001**	88,027
Murabaha and other financing	5	**579,784**	553,823
Mudaraba	6	**23,382**	24,296
Investment securities	8	**90,035**	92,052
Restricted investment accounts	9	**83,291**	80,952
Assets acquired for leasing	10	**11,752**	15,052
Investment in associates		**9,240**	9,240
Investment in real estate	11	**–**	2,141
Other assets	12	**22,312**	26,490
Due from the Bank		**371,376**	102,082
		1,216,173	994,155
Other liabilities	17	**(20,210)**	(11,144)
Equity of unrestricted investment account holders		**1,195,963**	983,011

Equity of unrestricted investment account holders at 31 December 2010 include an amount of $3.5 million (2009: negative $6.5 million) representing negative investments fair value reserve in respect of investments available-for-sale.

(Expressed in thousands of United States Dollars unless otherwise stated)

18. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (continued)

The movement in investments fair value reserve is as follows:

	31 December 2010	31 December 2009
At 1 January	**(6,543)**	(3,918)
Net movement during the year (note 8)	**2,995**	(2,625)
	(3,548)	(6,543)

The average gross rate of return in respect of unrestricted investment accounts was 6.25% for 31 December 2010 (2009: 5%) of which 3.7% (2009: 3.6%) was distributed to the investors and the balance was either set aside as provisions and/or retained by the Bank as share of profits in its capacity as a Mudarib.

Other liabilities includes profit equalization reserve and the movement is as follows:

	31 December 2010	31 December 2009
At 1 January	**3,099**	3,645
Net addition	**6,012**	–
Net utilization	**(956)**	(546)
At 31 December	**8,155**	3,099

The Bank's share of return from investment accounts with investors varies from 35-60 percent (2009: 30-60 percent) depending upon different maturity dates of the amount invested. The Bank also earned a management fee which shall not exceed 10% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds.

19. MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries:

	31 December 2010		31 December 2009	
	Minority %		Minority %	
Faysal Bank Limited	**34**	**90,859**	34	80,492
Health Island B.S.C. (C)	**50**	**111,342**	50	110,628
Ithmaar Aviation Investments One Ltd.	**5**	**341**	5	317
Cityview Real Estate Development B.S.C. (C)	**49**	**1,574**	49	1,575
Marina Reef Real Estate Development B.S.C. (C)	**49**	**4,862**	49	4,786
Sakana Holistic Housing Solutions B.S.C. (C)	**50**	**27,114**	50	28,166
		236,092		225,964

Minority interest in the consolidated income statement of $10.5 million (2009: negative $4.1 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of United States Dollars unless otherwise stated)

20. SHARE CAPITAL AND RESERVES

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
At 1 January 2009	2,111,825	527,956
Bonus issue	217,452	54,362
Treasury shares purchased	(77,286)	(19,322)
Treasury shares sold	23,338	5,836
At 31 December 2009	**2,275,329**	**568,832**
Rights issue	412,100	103,025
Treasury shares purchased	(11,842)	(2,961)
Treasury shares sold	9,432	2,358
At 31 December 2010	**2,685,019**	**671,254**

The Bank owned 119,031,285 of its own shares at 31 December 2010 (2009: 116,621,426). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

During March 2010, the Bank closed its rights issue offering which resulted in additional capital of $103 million representing 412.1 million shares at $0.25 per share.

A Stock dividend for 2008 of one share for every ten shares held amounting to $54.3 million (217.5 million shares) was approved by the Bank's shareholders in the Extra Ordinary General Meeting held on 24 March 2009.

STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital.

21. EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2010	31 December 2009
Net loss attributable to shareholders ($'000)	**(150,149)**	(247,415)
Weighted average number of issued and fully paid up ordinary shares ('000)	**2,555,507**	2,188,532
Earnings per share (Basic & Diluted) – US Cents	**(5.88)**	(11.31)

Earnings per share on non-sharia compliant income and expenses is included under note 39.

22. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

(Expressed in thousands of United States Dollars unless otherwise stated)

23. INCOME FROM FINANCING AND INVESTMENTS

	Relating to owners	
	31 December 2010	31 December 2009
Income from Murabaha financing	**22,483**	68,206
Income from Other financing	**161,518**	123,483
Income from Commodity placements with banks, financial and other institutions	**7,436**	29,880
Share of profit after tax from associates (Note 7)	**27,583**	27,072
Income from investments	**103,955**	72,719
	322,975	321,360
Less: profit paid to banks, financial and other institutions	**(220,258)**	(232,509)
	102,717	88,851

24. OTHER INCOME

	Relating to owners	
	31 December 2010	31 December 2009
Fees and commission on letters of credit and guarantee	**4,459**	4,418
Income from banking services	**8,482**	7,675
Performance fees	**14,508**	–
Arrangement fees	**2,508**	6,397
Foreign exchange income/(loss)	**4,043**	(21,328)
Others	**20,927**	7,510
	54,927	4,672

25. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2010	31 December 2009
Salaries and other benefits	**71,378**	68,955
Office expenses	**34,933**	27,692
Professional fees	**8,342**	13,218
Other administrative expenses	**16,341**	12,166
	130,994	122,031

26. SOCIAL RESPONSIBILITY

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

(Expressed in thousands of United States Dollars unless otherwise stated)

27. PROVISIONS

The movement in provisions is as follows:

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Beginning of year	**221,014**	**64,428**	**285,442**	102,113	46,563	148,676
Charge for the year	**226,809**	**7,024**	**233,833**	206,905	17,865	224,770
Write back during the year (note 36)	**(29,423)**	**–**	**(29,423)**	–	–	–
Utilised during the year	**–**	**(1,686)**	**(1,686)**	(58,062)	–	(58,062)
Acquisition of business (note 40)	**100,117**	**–**	**100,117**	–	–	–
Exchange differences and other movements	**(17,695)**	**–**	**(17,695)**	(29,942)	–	(29,942)
End of year	**500,822**	**69,766**	**570,588**	221,014	64,428	285,442

The allocation of the provision to the respective assets is as follows:

	31 December 2010			31 December 2009		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements with banks, financial and other institutions	**6,525**	**–**	**6,525**	6,525	–	6,525
Murabaha and other financing	**250,051**	**30,259**	**280,310**	111,141	28,596	139,737
Mudaraba	**–**	**14,789**	**14,789**	–	14,789	14,789
Investment in associates	**53,677**	**–**	**53,677**	–	–	–
Investments securities	**105,968**	**3,308**	**109,276**	50,072	–	50,072
Restricted investment accounts	**17,146**	**–**	**17,146**	–	–	–
Assets acquired for leasing	**1,467**	**15,519**	**16,986**	–	–	–
Investment in real estate	**16,881**	**–**	**16,881**	–	–	–
Other assets	**49,107**	**5,891**	**54,998**	48,069	21,043	69,112
Fixed assets	**–**	**–**	**–**	5,207	–	5,207
	500,822	**69,766**	**570,588**	221,014	64,428	285,442

Provisions include $17.5 million (2009: nil) held as general provisions.

(Expressed in thousands of United States Dollars unless otherwise stated)

28. OVERSEAS TAXATION

	Relating to owners 31 December 2010	31 December 2009
Current taxes	**(7,507)**	(562)
Deferred taxes	**13,848**	–
	6,341	(562)

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

CURRENT TAX (RECEIVABLE)/PAYABLE

	31 December 2010	31 December 2009
At 1 January	**8,112**	7,137
Transfer from/(to) deferred tax liability	**–**	48,268
Charge for the year	**7,507**	562
Payments made	**(28,343)**	(45,835)
Exchange differences and other movements	**6,201**	(2,020)
At 31 December	**(6,523)**	8,112

DEFERRED TAX (ASSET)/LIABILITY

	31 December 2010	31 December 2009
At 1 January	**(5,665)**	42,138
Transfer (to)/from current tax payable	**–**	(48,268)
Charge for the year	**(13,848)**	–
Changes due to fair value reserve	**(1,437)**	1,802
Acquisition of a business (note 40)	**(33,557)**	–
Exchange differences and other movements	**4,097**	(1,337)
At 31 December	**(50,410)**	(5,665)

(Expressed in thousands of United States Dollars unless otherwise stated)

29. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) funds under management, under which the Group is managing clients' funds as a mudarib on trustees' basis,

(ii) retail and corporate banking, in which the Group is extending financing to its clients, and

(iii) investment banking, in which the Group is directly participating in investment opportunities.

(iv) others

	31 December 2010					31 December 2009				
	Fund Manage-ment	**Retail & corporate banking**	**Investment banking**	**Others**	**Total**	Fund Manage-ment	Retail & corporate banking	Investment banking	Others	Total
Income	**13,227**	**172,034**	**34,835**	**(4,906)**	**215,190**	26,735	69,664	13,223	2,414	112,036
Expenses and provisions	**(13,402)**	**(229,953)**	**(105,602)**	**(12,186)**	**(361,143)**	(31,368)	(232,665)	(91,362)	(7,587)	(362,982)
Income/(loss) before overseas taxation	**(175)**	**(57,919)**	**(70,767)**	**(17,092)**	**(145,953)**	(4,633)	(163,001)	(78,139)	(5,173)	(250,946)
Overseas taxation	**–**	**6,710**	**(335)**	**(34)**	**6,341**	239	1	(336)	(466)	(562)
Net loss for the year					**(139,612)**					(251,508)
Attributable to:										
Equity holders of the Bank	**(175)**	**(63,128)**	**(71,814)**	**(15,032)**	**(150,149)**	707	(163,885)	(78,475)	(5,762)	(247,415)
Minority interests	**–**	**11,919**	**712**	**(2,094)**	**10,537**	(5,101)	885	–	123	(4,093)
					(139,612)					(251,508)
Total assets	**297,943**	**4,671,738**	**1,575,771**	**198,117**	**6,743,569**	114,259	4,391,011	1,562,806	37,858	6,105,934
Total liabilities and equity of unrestricted investment account holders	**276,240**	**4,053,551**	**1,387,539**	**136,131**	**5,853,461**	222,933	3,437,354	1,500,914	7,334	5,168,535

(Expressed in thousands of United States Dollars unless otherwise stated)

29. SEGMENTAL INFORMATION (continued)

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2010						31 December 2009					
	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	Europe	North America	Middle East & Africa	Asia	Others	Total
Income	**4,090**	**11,030**	**54,237**	**160,035**	**(14,202)**	**215,190**	(4,412)	9,230	43,091	72,210	(8,083)	112,036
Expenses and provisions	**(29,418)**	**(4,889)**	**(188,139)**	**(128,782)**	**(9,915)**	**(361,143)**	(30,862)	(6,370)	(171,444)	(130,007)	(24,299)	(362,982)
Income/(loss) before overseas taxation	**(25,328)**	**6,141**	**(133,902)**	**31,253**	**(24,117)**	**(145,953)**	(35,274)	2,860	(128,353)	(57,797)	(32,382)	(250,946)
Overseas taxation	**(1,021)**	**–**	**–**	**7,582**	**(220)**	**6,341**	(899)	–	–	337	–	(562)
Net loss for the year						**(139,612)**						(251,508)
Attributable to:												
Equity holders of the Bank	**(26,349)**	**6,141**	**(132,521)**	**23,641**	**(21,061)**	**(150,149)**	(36,173)	2,860	(125,009)	(54,699)	(34,394)	(247,415)
Minority interests	**–**	**–**	**(1,381)**	**15,194**	**(3,276)**	**10,537**	–	–	(3,344)	(2,761)	2,012	(4,093)
						(139,612)						(251,508)
Total assets	**368,401**	**105,862**	**2,718,758**	**3,259,946**	**290,602**	**6,743,569**	324,433	91,798	3,067,241	2,355,025	267,437	6,105,934
Total liabilities and equity of unrestricted investment account holders	**329,594**	**27,874**	**2,522,140**	**2,922,734**	**51,119**	**5,853,461**	51,953	13,037	3,088,613	1,990,842	24,090	5,168,535

30. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment account holders. The Bank does not collect or pay Zakah on behalf of its owners and its investment account holders.

(Expressed in thousands of United States Dollars unless otherwise stated)

31. CONTINGENT LIABILITIES AND COMMITMENTS

CONTINGENT LIABILITIES

	31 December 2010	31 December 2009
Acceptances and endorsements	**47,356**	20,819
Guarantees and irrevocable letters of credit	**804,084**	396,795
Customer claims	**103,034**	29,462
	954,474	447,076

COMMITMENTS

	31 December 2010	31 December 2009
Undrawn facilities, financing lines and other commitments to finance	**1,385,017**	1,188,783

32. CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	USD/PKR	**USD/EUR**	**USD/BHD**	**PKR/GBP**
As at 31 December 2010				
Total currency exposure	780,766	51,272	31,410	103,151
Reasonable shift	0.06%	0.27%	0.01%	0.07%
Total effect on income/equity	468	138	3	72
As at 31 December 2009				
Total currency exposure	136,746	126,165	28,052	32,407
Reasonable shift	0.14%	0.58%	0.01%	0.36%
Total effect on income/equity	191	732	3	117

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period.

(Expressed in thousands of United States Dollars unless otherwise stated)

32. CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment account holders, is as follows:

	United States Dollar	Pakistan Rupee	Swiss Franc	Bahrain Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
31 DECEMBER 2010									
Cash, balances with banks and central bank	164,803	156,933	3,447	140,712	235,914	13,932	48	16,894	732,683
Commodity placements with banks, financial and other institutions	176,408	–	–	–	–	–	–	–	176,408
Murabaha and other financing	459,452	1,525,990	–	470,311	54,713	–	–	19,628	2,530,094
Investments:									
Sukuk	–	50,156	–	–	–	–	–	–	50,156
Mudaraba	26,911	–	–	–	–	–	–	–	26,911
Investment in associates	–	1,744	–	580,745	–	–	66,634	15,865	664,988
Investment securities	188,526	972,252	560	4,342	10,336	–	–	14,664	1,190,680
Restricted investment accounts	192,666	–	–	928	10,684	–	–	–	204,278
Assets acquired for leasing	58,784	–	–	11,752	–	–	–	–	70,536
Investment in real estate	49,157	8,832	50,007	226,267	55,245	84	–	–	389,592
Other assets	48,243	139,901	4,805	35,751	33,537	16	–	25,018	287,271
Fixed assets	4,363	68,566	752	71,701	–	–	–	–	145,382
Intangible assets	242,274	31,528	788	–	–	–	–	–	274,590
Total assets	**1,611,587**	**2,955,902**	**60,359**	**1,542,509**	**400,429**	**14,032**	**66,682**	**92,069**	**6,743,569**
Customer current accounts	94,029	440,023	960	106,925	30,707	–	–	11,518	684,162
Due to banks, financial and other institutions	184,335	408,209	–	428,813	371,897	315,977	–	4,794	1,714,025
Due to investors	149,508	1,690,158	–	50,163	59,329	–	–	21,637	1,970,795
Other liabilities	66,705	110,695	11,022	92,283	7,072	2	–	737	288,516
Total liabilities	**494,577**	**2,649,085**	**11,982**	**678,184**	**469,005**	**315,979**	**–**	**38,686**	**4,657,498**
Equity of unrestricted investment account holders	378,097	–	–	817,866	–	–	–	–	1,195,963
Total liabilities and equity of unrestricted investment account holders	**872,674**	**2,649,085**	**11,982**	**1,496,050**	**469,005**	**315,979**	**–**	**38,686**	**5,853,461**
Contingent liabilities and commitments	**541,484**	**1,079,893**	**41,728**	**463,549**	**169,371**	**–**	**–**	**43,466**	**2,339,491**
31 DECEMBER 2009									
Total assets	**1,272,054**	**2,163,062**	**52,354**	**2,106,698**	**388,099**	**4,296**	**60,624**	**58,747**	**6,105,934**
Total liabilities and equity of unrestricted investment account holders	**1,035,973**	**1,903,305**	**5,801**	**1,389,109**	**816,758**	**361**	**–**	**17,228**	**5,168,535**
Contingent liabilities and commitments	**228,086**	**867,529**	**3,569**	**116,051**	**420,624**	**–**	**–**	**–**	**1,635,859**

(Expressed in thousands of United States Dollars unless otherwise stated)

33. MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment account holders, is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2010						
Cash, balances with banks and central bank	725,036	7,647	–	–	–	732,683
Commodity placements with banks, financial and other institutions	91,215	–	85,193	–	–	176,408
Murabaha and other financing	592,093	259,485	634,808	659,072	384,636	2,530,094
Investments:						
Sukuk	644	747	14,078	24,680	10,007	50,156
Mudaraba	12,398	3,806	3,043	7,664	–	26,911
Investment in associates	–	–	–	–	664,988	664,988
Investment securities	249,126	426,131	142,475	372,948	–	1,190,680
Restricted investment accounts	–	–	–	–	204,278	204,278
Assets acquired for leasing	2,425	–	–	61,232	6,879	70,536
Investment in real estate	–	–	–	264,736	124,856	389,592
Other assets	151,983	1,660	20,469	50,593	62,566	287,271
Fixed assets	–	–	–	–	145,382	145,382
Intangible assets	–	–	–	–	274,590	274,590
Total assets	**1,824,920**	**699,476**	**900,066**	**1,440,925**	**1,878,182**	**6,743,569**
31 December 2010						
Customer current accounts	684,162	–	–	–	–	684,162
Due to banks, financial and other institutions	1,077,690	132,730	299,932	186,796	16,877	1,714,025
Due to investors	1,099,033	184,874	562,856	88,879	35,153	1,970,795
Other liabilities	158,611	20,628	42,517	59,647	7,113	288,516
Total liabilities	**3,019,496**	**338,232**	**905,305**	**335,322**	**59,143**	**4,657,498**
Equity of unrestricted investment account holders	466,088	205,190	463,692	60,809	184	1,195,963
Total liabilities and equity of unrestricted investment account holders	**3,485,584**	**543,422**	**1,368,997**	**396,131**	**59,327**	**5,853,461**
Contingent liabilities and commitments	**1,294,032**	**201,483**	**633,380**	**68,268**	**142,328**	**2,339,491**
31 December 2009						
Total assets	**1,187,520**	**523,026**	**1,866,054**	**1,899,693**	**629,641**	**6,105,934**
Total liabilities and equity of unrestricted investment account holders	**2,582,084**	**527,364**	**1,179,416**	**876,856**	**2,815**	**5,168,535**
Contingent liabilities and commitments	**–**	**–**	**1,493,056**	**102,573**	**40,230**	**1,635,859**

(Expressed in thousands of United States Dollars unless otherwise stated)

34. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment account holders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

	Banks and financial institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
31 December 2010								
Cash, balances with banks and central bank	665,909	–	–	66,774	–	–	–	732,683
Commodity placements with banks, financial and other institutions	176,408	–	–	–	–	–	–	176,408
Murabaha and other financing	255,022	567,619	187,826	263,173	434,762	335,316	486,376	2,530,094
Investments:								
Sukuk	1,751	8,743	4,280	5,321	–	–	30,061	50,156
Mudaraba	3,528	2,461	17,530	131	–	–	3,261	26,911
Investment in associates	492,215	13,235	88,625	70,215	–	–	698	664,988
Investment securities	880,558	27,193	120,861	37,342	5,372	4,280	115,074	1,190,680
Restricted investment accounts	153,632	–	50,646	–	–	–	–	204,278
Assets acquired for leasing	–	6,620	58,799	476	4,503	–	138	70,536
Investment in real estate	–	–	389,592	–	–	–	–	389,592
Other assets	87,027	144	57,792	71,042	40,648	–	30,618	287,271
Fixed assets	2,306	–	143,076	–	–	–	–	145,382
Intangible assets	274,590	–	–	–	–	–	–	274,590
Total assets	**2,992,946**	**626,015**	**1,119,027**	**514,474**	**485,285**	**339,596**	**666,226**	**6,743,569**
Customer current accounts	15,466	162,884	32,799	86,572	310,498	11,032	64,911	684,162
Due to banks, financial and other institutions	1,455,365	–	228,946	10,658	6,421	–	12,635	1,714,025
Due to investors	173,752	255,736	24,891	139,094	1,124,860	11,327	241,135	1,970,795
Other liabilities	13,902	5,111	53,203	6,735	57,204	11,704	140,657	288,516
Total liabilities	**1,658,485**	**423,731**	**339,839**	**243,059**	**1,498,983**	**34,063**	**459,338**	**4,657,498**
Equity of unrestricted investment account holders	83,583	333,730	62,505	240,167	427,337	–	48,641	1,195,963
Total liabilities and equity of unrestricted investment account holders	**1,742,068**	**757,461**	**402,344**	**483,226**	**1,926,320**	**34,063**	**507,979**	**5,853,461**
Contingent liabilities and commitments	**768,337**	**871,633**	**96,146**	**258,581**	**97,433**	**126,675**	**120,686**	**2,339,491**
31 December 2009								
Total assets	**2,347,010**	**426,967**	**861,756**	**762,514**	**116,452**	**212,786**	**1,378,449**	**6,105,934**
Total liabilities and equity of unrestricted investment account holders	**2,339,398**	**265,766**	**186,875**	**189,954**	**786,535**	**19,086**	**1,380,921**	**5,168,535**
Contingent liabilities and commitments	**840,579**	**169,403**	**146,979**	**144,732**	**7,430**	**108,060**	**218,676**	**1,635,859**

(Expressed in thousands of United States Dollars unless otherwise stated)

34. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
31 December 2010						
Assets						
Cash, balances with banks and central bank	243,343	351,867	127,164	10,309	–	732,683
Commodity placements with banks, financial and other institutions	–	151,407	25,001	–	–	176,408
Murabaha and other financing	1,632,404	598,081	22,322	16	277,271	2,530,094
Investments:						
Sukuk	50,156	–	–	–	–	50,156
Mudaraba	–	165	–	26,746	–	26,911
Investment in associates	68,378	585,349	–	–	11,261	664,988
Investment securities	1,014,104	116,624	11,359	46,523	2,070	1,190,680
Restricted investment accounts	4,233	161,132	38,913	–	–	204,278
Assets acquired for leasing	–	70,407	–	129	–	70,536
Investment in real estate	8,832	275,509	105,251	–	–	389,592
Other assets	138,402	93,947	32,783	22,139	–	287,271
Fixed assets	68,566	76,055	761	–	–	145,382
Intangible assets	31,528	238,215	4,847	–	–	274,590
Total assets	**3,259,946**	**2,718,758**	**368,401**	**105,862**	**290,602**	**6,743,569**
Customer current accounts	492,888	140,824	21,094	3,148	26,208	684,162
Due to banks, financial and other institutions	413,215	1,022,795	238,398	15,027	24,590	1,714,025
Due to investors	1,856,508	61,763	44,833	7,507	184	1,970,795
Other liabilities	159,809	115,617	12,525	565	–	288,516
Total liabilities	**2,922,420**	**1,340,999**	**316,850**	**26,247**	**50,982**	**4,657,498**
Equity of unrestricted investment account holders	314	1,181,141	12,744	1,627	137	1,195,963
Total liabilities and equity of unrestricted investment account holders	**2,922,734**	**2,522,140**	**329,594**	**27,874**	**51,119**	**5,853,461**
Contingent liabilities and commitments	**1,621,288**	**552,232**	**89,496**	**35,773**	**40,702**	**2,339,491**
31 December 2009						
Total assets	**2,355,025**	**3,067,241**	**324,433**	**91,798**	**267,437**	**6,105,934**
Total liabilities and equity of unrestricted investment account holders	**1,990,842**	**3,088,613**	**51,953**	**13,037**	**24,090**	**5,168,535**
Contingent liabilities and commitments	**1,062,300**	**118,840**	**399,560**	**5,262**	**49,897**	**1,635,859**

(Expressed in thousands of United States Dollars unless otherwise stated)

35. RISK MANAGEMENT

CREDIT RISK

The significant concentration of credit risk at 31 December is set out in note 34.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment account holders:

	31 December 2010			31 December 2009		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	**176,001**	**35,774**	**211,775**	125,764	7,335	133,099
Non performing financing exposures	**383,884**	**166,881**	**550,765**	178,672	110,507	289,179
	559,885	**202,655**	**762,540**	304,436	117,842	422,278
Fair value of collateral						
Past due but performing financing exposures	**251,093**	**39,096**	**290,189**	118,851	5,535	124,386
Non performing financing exposures	**579,839**	**210,763**	**790,602**	146,387	84,979	231,366
	830,932	**249,859**	**1,080,791**	265,238	90,514	355,752

Included in the performing financing exposures of the Group are facilities which have been restructured during the year but are not considered non performing which are as follows:

	31 December 2010			31 December 2009		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	**29,845**	**4,405**	**34,250**	26,791	4,554	31,345

Non performing financing exposures relating to restricted investment accounts aggregate $53.8 million (2009: $nil).

At Ithmaar, a financing exposure is classified as past due if payments are not received for more than 90 days from their original payment dates. Once an exposure is classified as past due, the profit on such accounts is suspended and appropriate specific provision is made as per the table below:

Classes of Past Due exposures	% of provisioning of the outstanding Net Exposure
Sub-Standard	25%
Bad and Doubtful	50%
Loss	100%

(Expressed in thousands of United States Dollars unless otherwise stated)

35. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

The Bank, at its own sole discretion and without prejudice to the Islamic Sharia, chooses to charge customers a late payment fee on past due amounts. All these fees are transferred to the charity account and are reported and managed by the Sharia Supervisory Board.

During 2010, the Bank collected $ 260,000 in late payment fees which was transferred to charity account.

PROFIT RATE RISK

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
31 December 2010							
Cash, balances with banks and central bank	372,503	7,647	–	–	–	352,533	732,683
Commodity placements with banks, financial and other institutions	91,215	–	85,193	–	–	–	176,408
Murabaha and other financing	612,682	281,602	747,360	725,051	150,125	13,274	2,530,094
Investments:							
Sukuk	644	654	13,762	34,687	–	409	50,156
Investment securities	237,993	425,290	140,745	144,148	–	242,504	1,190,680
Assets acquired for leasing	2,425	–	–	61,232	6,879	–	70,536
Other assets	20,970	–	5,935	–	–	260,366	287,271
Total financial assets	**1,338,432**	**715,193**	**992,995**	**965,118**	**157,004**	**869,086**	**5,037,828**
Customer current accounts	–	–	–	–	–	684,162	684,162
Due to banks, financial and other institutions	1,088,316	132,730	467,496	22,393	44	3,046	1,714,025
Due to investors	921,542	184,874	768,737	89,219	197	6,226	1,970,795
Other liabilities	–	–	–	–	–	288,516	288,516
Total financial liabilities	2,009,858	317,604	1,236,233	111,612	241	981,950	4,657,498
Equity of unrestricted investment account holders	466,088	205,190	463,692	60,809	184	–	1,195,963
Total liabilities and equity of unrestricted investment account holders	2,475,946	522,794	1,699,925	172,421	425	981,950	5,853,461
Total repricing gap	**(1,137,514)**	**192,399**	**(706,930)**	**792,697**	**156,579**	**(112,864)**	**(815,633)**
31 December 2009							
Total financial assets	**888,001**	**503,478**	**1,988,775**	**480,384**	**207,330**	**566,001**	**4,633,969**
Total financial liabilities and equity of unrestricted investment account holders	**1,875,090**	**711,786**	**1,714,228**	**41,505**	**1,757**	**816,057**	**5,160,423**
Total repricing gap	**(987,089)**	**(208,308)**	**274,547**	**438,879**	**205,573**	**(250,056)**	**(526,454)**

(Expressed in thousands of United States Dollars unless otherwise stated)

35. RISK MANAGEMENT (continued)

	USD	EUR	PKR	GBP	BHD	AED
As at 31 December 2010						
Total profit rate exposure	207,988	407,221	971,016	30,539	115,590	315,977
Reasonable shift	0.13%	0.41%	0.05%	0.06%	0.04%	0.20%
Total effect on income	**270**	**1,670**	**486**	**18**	**46**	**632**
As at 31 December 2009						
Total profit rate exposure	326,226	764,310	83,558	12,489	20,744	359
Reasonable shift	1.91%	2.10%	4.05%	1.87%	1.27%	0.10%
Total effect on income	**6,231**	**16,051**	**3,384**	**234**	**264**	**1**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

PRICE RISK

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (2009: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

	Impact on other components of equity	
	2010	2009
Index		
Pakistan stock exchange (+/-10%)	**8,154**	6,282

36. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

Related parties comprise:

(a) Directors and major shareholders of the Bank and companies in which they have an ownership interest;
(b) Corporate, whose ownership and management is common with the bank.
(c) DMIT and companies in which DMIT has ownership interest
(d) Associated companies of the Bank

All related party transactions are done at arm's length and require the approval of the Board of Directors.

(Expressed in thousands of United States Dollars unless otherwise stated)

36. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2010		31 December 2009	
	Relating to owners	**Relating to unrestricted investment accounts**	Relating to owners	Relating to unrestricted investment accounts
Assets				
Commodity placements with banks, financial and other institutions (note i)	**156,408**	**25,113**	161,706	25,001
Murabaha and other financing	**217,844**	**12,710**	247,906	22,482
Investment securities	**–**	**17,993**	–	21,195
Other assets (note i)	**63,901**	**–**	48,725	–
Liabilities				
Customers' current accounts	**777**	**–**	–	–
Due to banks, financial and other institutions	**228,937**	**–**	338,022	–
Equity of unrestricted investment account holders	**–**	**103,788**	–	43,462
Other liabilities	**16,293**	**–**	4,626	–
Funds managed by related parties	**–**	**64,589**	–	61,794

At 31 December 2010 restricted investment accounts funds invested with related parties amounted to $57.5 million (2009: $24.1 million).

The Group entered into the following significant transactions with related parties during the year ended 31 December 2010:

	31 December 2010	31 December 2009
Income from financings and short-term liquid funds	**3,912**	7,706
Income from sale of financings and investments - note (ii)	**29,423**	–
Profit from sale of investment - note (iii)	**24,128**	–
Profit paid	**77**	5,501
Dividends received	**15,766**	12,966
Fee expense	**4,308**	4,700
Expense recovery	**12,315**	11,435

Note (i) – During the year ended 2010, the Group has obtained pledge of specific assets totalling $177.8 million against the outstanding exposure.

During the quarter ended 30 September 2010, the Group sold its investment in certain subsidiaries (investment holding companies) to a related party for a consideration of $4.9 million. No gain or loss was realised on this transaction.

(Expressed in thousands of United States Dollars unless otherwise stated)

36. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

During 2009, the Group sold certain assets amounting to $36.8 million to a related party and no gain or loss was realised on this transaction.

Note (ii) - During the quarter ended 30 September 2010, the Group recorded a profit of $29.4 million through the sale of investment in real estate, financings and receivables carried at book value of $12.9 million to a related party for a consideration of US$42.3 million. The consideration was settled in-kind by transfer of investments in associate and restricted investment accounts with a book value of $42.3 million and the profit on sale reflect the write back of previous impairment charges (note 27).

Note (iii) - During the quarter ended 30 June 2010 the Group recorded a profit of $24.1 million through the sale of investment in associate carried at book value of $0.012 million to a related party for a consideration of $24.1 million. The consideration was settled in-kind by transfer of investment in real estate and investment securities with a book value of $24.1 million and the profit is included in the consolidated income statement under income from related party transactions.

37. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December.

	31 December 2010	31 December 2009
Tier 1	**718,029**	711,061
Tier 2	**48,477**	74,115
Total Capital Base	**766,506**	785,176
Total Risk-Weighted Exposures	**5,805,934**	6,148,525
Capital Adequacy Ratio	**13.20%**	12.77%

38. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2010 (2009: Nil).

(Expressed in thousands of United States Dollars unless otherwise stated)

39. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses during the year from conventional assets and liabilities. These conventional assets and liabilities are covered by the Sharia Compliance Plan. The details of the gross income and gross expenses are as follows:

	Year ended	
	31 December 2010	31 December 2009
INCOME		
Group's share of income from unrestricted investment accounts as a Mudarib	**950**	992
Income from financing and investments	**304,836**	261,344
Other income	**42,812**	(10,997)
Gross income	**348,598**	251,339
Profit paid to banks, financial and other institutions	**(174,952)**	(175,972)
Total income	**173,646**	75,367
EXPENSES		
Administrative and general expenses	**(83,465)**	(66,857)
Depreciation and amortisation	**(13,613)**	(18,069)
Total expenses	**(97,078)**	(84,926)
Net income/(loss) before provision for impairment and overseas taxation	**76,568**	(9,559)
Provision for impairment (net)	**(109,772)**	(96,094)
Net loss before overseas taxation	**(33,204)**	(105,653)
Overseas taxation	**7,246**	(68)
NET LOSS FOR THE YEAR	**(25,958)**	(105,721)
Attributable to:		
Equity holders of the Bank	**(39,623)**	(98,069)
Minority interests	**13,665**	(7,652)
	(25,958)	(105,721)
Basic and diluted earnings per share	**US cts (1.55)**	US cts (4.48)

(Expressed in thousands of United States Dollars unless otherwise stated)

40. ACQUISITION OF A BUSINESS

One of the Group's subsidiary, Faysal Bank Limited (FBL), acquired 99.37% of the Pakistan operations of Royal Bank of Scotland (RBS) on 15 October 2010. The remaining 0.63% non-controlling interest was acquired subsequently by FBL through issuance of ordinary shares. Effective 31 December 2010, RBS has been amalgamated with FBL.

The fair value of the net assets acquired are as follows:

	Amount
Fair value of net assets acquired	
Fair value of net assets of RBS (excluding intangible assets)	58,968
Fair value of intangible assets of RBS - gross	30,187
Less: deferred tax on intangible assets	(10,450)
	78,705
Less: purchase consideration	
Cash consideration (Euro 41 million) for 99.37% share	58,272
1,812,250 shares issued for 0.63% stake	696
Gain on acquisition - net	**19,737**

41. REORGANISATION

On 14 April 2010 the CBB approved the reorganisation of the Bank and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C. (C) (the "Shamil Bank") into one entity under Ithmaar Bank B.S.C. with an Islamic retail banking license. As a result, Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010.

Accordingly, the opening balances of owners' equity for current and comparative periods have been restated.

42. COMPARATIVES

Prior year figures have been restated where necessary to conform to the current year presentation under AAOIFI. The effects of the restatement in the consolidated financial statements are as follows:

	Previously reported	Adjustment	Restated
31 December 2009			
Total assets	5,213,861	892,073	6,105,934
Total liabilities	4,276,462	(90,938)	4,185,524
Equity of unrestricted investment account holders	–	983,011	983,011
Restricted investment accounts	1,371,943	(148,493)	1,223,450

The adjustment mainly represents the inclusion of equity of unrestricted investment account holders as on-balance sheet under AAOIFI, these amounts were previously reported as off-balance sheet funds under management under IFRS.

ANNEXES

Basel II Pillar III Quantitative Disclosures

at 31 December 2010

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

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Basel II Pillar III Quantitative Disclosures

at 31 December 2010
(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

1. BACKGROUND

The Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2010, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures are mainly related to compliance with the Basel II Pillar III Quantitative disclosure requirements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010.

2. BASEL II FRAMEWORK

CBB has issued Basel II guidelines for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a risk based approach for calculation of regulatory capital. The Basel II framework is expected to strengthen the risk management practices across the financial institutions.

The Basel II framework is based on three pillars as follows:

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. METHODOLOGY

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:
  - With respect to Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. APPROACHES ADOPTED FOR DETERMINING REGULATORY CAPITAL REQUIREMENTS

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. GROUP STRUCTURE

The Group's consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with AAOIFI. However, the CBB's consolidated capital adequacy methodology accommodates both line-by-line and aggregation forms of consolidation.

Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	65.7 per cent	Full Aggregation

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

6. CONSOLIDATED CAPITAL STRUCTURE FOR CAPITAL ADEQUACY PURPOSE

A	**TIER 1 CAPITAL**	
	Issued and fully paid-up ordinary capital	671,254
	Reserves	
	Share Premium	149,889
	General reserves	50,726
	Statutory reserve	38,090
	Others	(16,716)
	Accumulated losses	(39,148)
	Minority interest in the equity of subsidiaries	115,153
	Aggregation	196,766
	Sub-Total	**1,166,014**
	Regulatory deductions:	
	Goodwill	(81,415)
	Loss for the year	(164,324)
	Total Tier 1 capital before PCD deductions	**920,275**
B	**TIER 2 CAPITAL**	
	Unrealized gains arising from fair valuations (45%)	6,098
	Aggregation	48,475
	Total Tier 2 capital before PCD deductions	**54,573**
C	**TOTAL AVAILABLE CAPITAL (A+B)**	**974,848**
D	**GENERAL DEDUCTIONS FROM TIER 1 & 2 UNDER PCD MODULE**	
	Deduction of unconsolidated financial subsidiaries which are aggregated or deducted	(97,432)
	Deduction of unconsolidated financial associates which are aggregated or deducted	(50,434)
	Excess over maximum permitted large exposure limit	(60,477)
	Total Deductible Items	**(208,343)**
E	**TOTAL ELIGIBLE CAPITAL (C-D)**	**766,505**

Basel II Pillar III Quantitative Disclosures

at 31 December 2010

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

7. DISCLOSURE OF THE REGULATORY CAPITAL REQUIREMENTS FOR CREDIT RISK UNDER STANDARDIZED APPROACH

EXPOSURE FUNDED BY SELF FINANCE

	Risk weighted assets	Capital requirement
Banks	183,180	21,982
Corporate Portfolio	463,650	55,638
Investments in Securities	871,695	104,603
Holding of Real estate	1,167,846	140,141
Regulatory Retail	2,007	241
Residential Mortgage	41,411	4,969
Past due loans	43,846	5,262
Other assets	182,164	21,860
Aggregation	1,747,911	209,749
Total	**4,703,710**	**564,445**

EXPOSURE FUNDED BY UNRESTRICTED INVESTMENT ACCOUNTS (URIA)

	Risk weighted assets	Capital requirement
Corporate Portfolio	48,077	5,769
Equity portfolio	31,118	3,734
Holding of Real estate	63,888	7,667
Regulatory Retail	74,745	8,969
Past due loans	22,028	2,644
Total	**239,856**	**28,783**

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

8. GROSS CREDIT EXPOSURES:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash, balances with banks and central banks	732,683	691,866
Commodity placements with banks, financial and other institutions	176,408	282,320
Murabaha and other financing	2,530,094	2,359,798
Investments	2,597,141	2,445,387
Other assets	287,271	252,221
Fixed assets	145,382	126,564
Intangible assets	274,590	266,599
Total on balance sheet credit exposure	**6,743,569**	**6,424,755**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	851,440	634,527
Financing commitments, Undrawn facilities and other credit related liabilities	1,488,051	1,353,148
Total off balance sheet credit exposure	**2,339,491**	**1,987,675**
Total credit exposure	**9,083,060**	**8,412,430**
Total credit exposure financed by URIA	**1,216,173**	**1,105,164**
Total credit exposure financed by URIA (%)	**13%**	**13%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2010.

9. GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES:

	Asia/Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash, balances with banks and central banks	243,343	351,867	127,164	10,309	–	732,683
Commodity placements with banks, financial and other institutions	–	151,407	25,001	–	–	176,408
Murabaha and other financing	1,632,404	598,081	22,322	16	277,271	2,530,094
Investments	1,145,703	1,209,186	155,523	73,398	13,331	2,597,141
Other assets	138,402	93,947	32,783	22,139	–	287,271
Fixed assets	68,566	76,055	761	–	–	145,382
Intangible assets	31,528	238,215	4,847	–	–	274,590
Total on-balance sheet items	**3,259,946**	**2,718,758**	**368,401**	**105,862**	**290,602**	**6,743,569**
Off-balance sheet items	**1,621,288**	**552,232**	**89,496**	**35,773**	**40,702**	**2,339,491**
Total credit exposure	**4,881,234**	**3,270,990**	**457,897**	**141,635**	**331,304**	**9,083,060**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

Basel II Pillar III Quantitative Disclosures

at 31 December 2010
(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

10. INDUSTRIAL DISTRIBUTION OF CREDIT EXPOSURES:

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash, balances with banks and central banks	665,909	–	–	66,774	–	–	–	732,683
Commodity placements with banks, financial and other institutions	176,408	–	–	–	–	–	–	176,408
Murabaha and other financing	255,022	567,619	187,826	263,173	434,762	335,316	486,376	2,530,094
Investments	1,531,684	58,252	730,333	113,485	9,875	4,280	149,232	2,597,141
Other assets	87,027	144	57,792	71,042	40,648	–	30,618	287,271
Fixed assets	2,306	–	143,076	–	–	–	–	145,382
Intangible assets	274,590	–	–	–	–	–	–	274,590
Total on-balance sheet items	**2,992,946**	**626,015**	**1,119,027**	**514,474**	**485,285**	**339,596**	**666,226**	**6,743,569**
Off-balance sheet items	**768,337**	**871,633**	**96,146**	**258,581**	**97,433**	**126,675**	**120,686**	**2,339,491**
Total credit exposure	**3,761,283**	**1,497,648**	**1,215,173**	**773,055**	**582,718**	**466,271**	**786,912**	**9,083,060**

11. MATURITY BREAKDOWN OF CREDIT EXPOSURES:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash, balances with banks and central banks	725,036	7,647	–	–	–	–	–	732,683
Commodity placements with banks, financial and other institutions	91,215	–	85,193	–	–	–	–	176,408
Murabaha and other financing	592,093	259,485	634,808	659,072	350,360	34,276	–	2,530,094
Investments	264,593	430,684	159,596	731,260	662,363	19,511	329,134	2,597,141
Other assets	151,983	1,660	20,469	50,593	62,566	–	–	287,271
Fixed assets	–	–	–	–	135,845	–	9,537	145,382
Intangible assets	–	–	–	–	–	274,590	–	274,590
Total on-balance sheet items	**1,824,920**	**699,476**	**900,066**	**1,440,925**	**1,211,134**	**328,377**	**338,671**	**6,743,569**
Off balance sheet items	**1,294,032**	**201,483**	**633,380**	**68,268**	**39,449**	**102,879**	**–**	**2,339,491**
Total credit exposure	**3,118,952**	**900,959**	**1,533,446**	**1,509,193**	**1,250,583**	**431,256**	**338,671**	**9,083,060**

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

12. RELATED-PARTY BALANCES UNDER CREDIT EXPOSURE:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2010 were as follows:

Affiliated companies	480,867
Directors & key management	13,101
Total	**493,968**

During the quarter ended 30 September 2010, the Group recorded a profit of $29.4 million through the sale of investment in real estate, financings and receivables carried at book value of $12.9 million to a related party for a consideration of $42.3 million. The consideration was settled in-kind by transfer of investments in associate and restricted investment accounts with a book value of $42.3 million and the profit on sale reflect the write back of previous impairment charges (Note 36 (ii)). This transaction was concluded at terms mutually agreed with the related party and as such was not at arm's length.

CONCENTRATION OF RISK TO INDIVIDUAL COUNTERPARTIES WHERE THE CREDIT EXPOSURE IS IN EXCESS OF THE 15% INDIVIDUAL OBLIGOR LIMIT:

Non-banks	161,487
Total	**161,487**

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	271,864	197,876	73,988
Agriculture	12,800	2,786	10,014
Construction	16,572	3,689	12,883
Finance	10,450	526	9,924
Trade	109,745	34,531	75,214
Personal	80,784	36,127	44,657
Real estate	25,983	8,274	17,709
Government	1,215	–	1,215
Technology and telecommunications	646	–	646
Transportation	491	242	249
Other sectors	20,215	13,245	6,970
Total	**550,765**	**297,296**	**253,469**
Ageing analysis			
Over 3 months up to 1 year	102,470	26,742	75,728
Over 1 year up to 3 years	145,504	47,756	97,748
Over 3 years	302,791	222,798	79,993
Total	**550,765**	**297,296**	**253,469**

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT (continued):

	Relating to owners	Relating to unrestricted investment accounts	Total
Movement in impairment provisions			
At 1 January	111,141	40,440	151,581
Charge for the year	44,681	7,024	51,705
Utilized during the year	–	(1,686)	(1,686)
Acquisition of a business	99,320	–	99,320
Exchange differences	(3,624)	–	(3,624)
At 31 December	**251,518**	**45,778**	**297,296**

14. PAST DUE AND IMPAIRED FINANCINGS BY GEOGRAPHICAL AREAS:

	Gross exposure	Impairment provisions	Net exposure
Analysis by Geography			
Asia/Pacific	364,171	221,985	142,186
Middle East	184,436	73,555	110,881
Europe	2,158	1,756	402
Total	**550,765**	**297,296**	**253,469**

15. DETAILS OF CREDIT FACILITIES OUTSTANDING AT 31 DECEMBER 2010 THAT HAVE BEEN RESTRUCTURED DURING THE YEAR 2010

Restructured financings during the year ended 31 December 2010 aggregated to $34.3 million. This restructuring had no impact on present earnings during the year ended 31 December 2010. Further, this restructuring is expected to have positive impact of $4.5 million on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

16. CREDIT EXPOSURES WHICH ARE COVERED BY ELIGIBLE FINANCIAL COLLATERAL:

	Gross Exposure	Eligible Financial Collateral
Exposure funded by Self Finance		
Corporate portfolio	1,786,454	80,850
Banks	649,051	62,705
Retail	298,819	40,641
Public Sector Entities	95,094	38
Past due financings	159,947	24,986
Total	**2,989,365**	**209,220**
Exposure funded by Unrestricted Investment Accounts		
Corporate portfolio	219,041	53,732
Past due financings	74,002	19,146
Total	**293,043**	**72,878**

17. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDIZED APPROACH:

	Risk weighted assets			Capital requirement		
	31 December 2010	Maximum Value	Minimum Value	31 December 2010	Maximum Value	Minimum Value
Foreign exchange risk	106,850	193,785	106,850	12,822	23,254	12,822
Aggregation	81,649	137,724	81,649	9,798	16,527	9,798
Total	**188,499**	**331,509**	**188,499**	**22,620**	**39,781**	**22,620**

18. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR OPERATIONAL RISK UNDER THE BASIC INDICATOR APPROACH

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2010 aggregated to $80.8 million.

19. TIER ONE CAPITAL RATIOS AND TOTAL CAPITAL RATIOS:

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	12.38%	13.20%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	7.26%	9.58%

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

20. EQUITY POSITION IN BANKING BOOK

At 31 December 2010, the Group's investment securities aggregated to $1,190.6 million. Out of the total investment securities, $150.9 million were listed investment securities and the remaining $1,039.7 million represented unlisted investment securities.

Cumulative realized gains from sale of investment securities during the year amounted to $12.9 million. Total unrealized losses recognized in the consolidated statement of changes in owners' equity amounted to $0.2 million.

At 31 December 2010, capital requirements using standardized approach aggregated to $45.7 million for listed investment securities and $62.6 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

21. GROSS INCOME FROM MUDARABA AND PROFIT PAID TO INVESTMENT ACCOUNT HOLDERS:

	31 December				
	2010	2009	2008	2007	2006
Income from unrestricted investment accounts	**61,546**	48,835	50,033	54,500	71,893
Less: return to unrestricted investment accounts	**(56,395)**	(44,796)	(37,868)	(44,781)	(46,073)
Group's share of income from unrestricted investment accounts as a Mudarib	**5,151**	4,039	12,165	9,719	25,820

For the year ended 31 December 2010 the return to unrestricted investment account holders based on the average balance outstanding during the period stood at 5.17%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the year ended 31 December 2010 as a percentage of gross income from unrestricted investment accounts stood at 8.37%.

22. MOVEMENT IN PROFIT EQUALIZATION RESERVE AND PROVISIONS – URIA:

	31 December				
	2010	2009	2008	2007	2006
Profit Equalization Reserve					
As at 1 January	**3,099**	3,645	2,072	764	4,795
Net addition	**6,012**	–	1,573	1,308	–
Net utilization	**(956)**	(546)	–	–	(4,031)
As at 31 December	**8,155**	3,099	3,645	2,072	764
Amount appropriated as a percentage of gross profit	**10%**	–	3%	2%	–
Provisions					
As at 1 January	**64,428**	46,563	38,334	37,906	27,310
Net addition	**5,465**	17,865	8,229	428	10,596
Net utilization	**(127)**	–	–	–	–
As at 31 December	**69,766**	64,428	46,563	38,334	37,906

At 31 December 2010, the ratio of profit equalization reserve and provisions to equity of unrestricted investment account holders stood at 1% and 6% respectively.

At 31 December 2010, the ratio of financings to URIA stood at 50%.

(All amounts are expressed in thousands of United States Dollars unless otherwise stated)

23. AVERAGE DECLARED RATE OF RETURN ON GENERAL MUDARABA DEPOSITS:

	31 December				
	2010	2009	2008	2007	2006
			Percentage		
7 Days	**0.50**	0.50	0.52	0.75	0.75
30 Days	**3.00**	3.17	3.26	4.25	4.02
90 Days	**3.25**	3.25	3.27	4.50	4.27
180 Days	**3.50**	3.50	3.51	4.70	4.52
360 Days	**3.70**	3.63	3.68	4.95	4.77

24. PROFIT RATE RISK:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	PKR	EUR	BHD
Total profit rate exposure	207,988	971,060	407,221	115,590
Rate shock (assumed) (+/-)	2%	2%	2%	2%
Total estimated impact (+/-)	**4,160**	**19,421**	**8,144**	**2,312**

25. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistan Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal.

The significant net foreign currency positions at 31 December 2010 were as follows:

Euro	25,118
UK Sterling	545
Kuwaiti Dinar	215
UAE Dirham	(298,064)
Australian Dollar	14,219
Hong Kong Dollar	66,725
Saudi Riyal	9,569

26. LEGAL CONTINGENCIES AND COMPLIANCE

At 31 December 2010, the Group had contingent liabilities towards customer claims aggregating to $103 million. The management is of the view that these claims are not likely to result into potential liabilities.

During 2010, the CBB imposed a penalty of $53 thousand on the Bank for non-compliance of certain provision relating to the Bahrain Credit Reference Bureau Records system.

Share Information

SHAREHOLDING STRUCTURE

Range	No. of Shareholders **31 December 2010**	No. of Shareholders 31 December 2009
1-10,000	**119**	86
10,001-100,000	**2,318**	2,297
100,001-1,000,000	**429**	376
1,000,001-10,000,000	**144**	143
Over 10,000,000	**31**	33
Total	**3,041**	2,935

SHAREHOLDING BY NATIONALITY

Country	31 December 2010 No. of Shareholders	31 December 2010 % of Shares
Bahamas	3	49.37
Bahrain	974	9.25
KSA	946	16.70
Other GCC Countries	654	7.70
Other Countries	464	16.98
Total	3,041	100.00

MAJOR SHAREHOLDERS OF ITHMAAR BANK B.S.C.

Rank	Shareholder	31 December 2010 No. of Shares	31 December 2010 %
1	Dar Al-Maal Al-Islami Trust	790,416,000	28.19
2	Islamic Inv. Co. of Gulf (Bahamas)	594,129,224	21.19
	Others	1,419,505,043	50.62
	Total	2,804,050,267	100.00

Major shareholders, as defined by the Bahrain Bourse, are those who hold 5% or more of the issued share capital. Only the above two shareholders met this criterion on 31 December 2010.

PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR

SHARE PRICE RELATIVE TO INDICES - 2010

Benchmark	Open	High	Low	Close	Change in 2010
ITHMR's Share Price (in US$)	**0.240**	**0.235**	**0.105**	**0.125**	**-47.92%**
Commercial Banks Sector Index	1,679.17	2,273.00	1,635.83	2,005.59	19.44%
Bahrain All Share Index	1,458.27	1,608.77	1,358.17	1,432.26	-1.78%
Esterad Index	1,456.09	1,667.99	1,404.92	1,509.60	3.67%
Dow Jones Bahrain Index	121.74	135.85	112.68	121.05	-0.57%

ITHMR SHARE TRADING

	2010	2009
Volume, No. of shares	**125,708,423**	151,351,853
Value, BD	**7,123,652**	11,714,381

MARKET CAPITALISATION AND TURNOVER

Benchmark	**2010**			2009		
	Market Cap (BD)	**% of Total Market Cap**	**Share Turnover**	Market Cap (BD)	% of Total Market Cap	Share Turnover
ITHMR	**132,140,869**	**1.75%**	**5.39%**	**216,423,633**	**3.53%**	**5.41%**
Sector*	2,567,870,918	33.96%	1.72%	2,546,661,167	41.54%	1.85%
Market	7,562,517,045	100.00%	1.43%	6,131,082,444	100.00%	2.87%

* In 2010 Ithmaar Bank was moved from Investment Sector to Commercial Banks sector

RANKING

ITHMR's ranking in 2010 out of the 42 local listed companies in the Bahrain Bourse.

	Value Traded (BD)	Volume Traded	No. of Transactions	Market Cap (BD)	Share Turnover	No. of Trading Days
Ranking	4	2	2	10	8	2

TRADING DAYS

	2010		2009	
	No. of Days	**%**	No. of Days	%
ITHMR	**226**	**91.50**	226	92.24
Market	**247**	**100.00**	245	100.00

Glossary of Key Financial Terms Used

CAPITAL ADEQUACY RATIO The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements.

COST TO INCOME RATIO Total expenses expressed as a percentage of total income; a measure of operational efficiency.

EARNINGS PER SHARE Profit (or loss) attributable to shareholders divided by the weighted average number of issued and paid up shares during the year.

IJARAH OR IJARA A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

IMPAIRMENT An occurrence when the value of an asset is less than the carrying amount; a measure of asset quality.

INTANGIBLE ASSET An identifiable non-monetary asset without physical substance held for use in the production or supply of goods and/or services.

LIQUID ASSETS Assets that are held in cash or in a form that can be converted to cash readily.

MARKET CAPITALISATION Number of shares in issue multiplied by the market value of a share at a particular point in time.

MUDARIB An entrepreneur or investment manager in a Mudarabah contract who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudarabah is similar to a diversified pool of assets held in a discretionary asset management portfolio.

MUDARABAH OR MUDARABA An investment partnership, whereby the investor provides capital to the entrepreneur (the 'mudarib') in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are borne by the investor alone. The mudarib loses only his share of the expected income. The investor has no right to interfere in the management of the business, but can specify conditions that would ensure better management of his money. A joint Mudarabah can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudarabah.

MURABAHAH OR MURABAHA Cost plus financing. A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The Bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

MUSHARAKAH OR MUSHARAKA An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners contribute equity funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure or the holding of voting stock in a limited company.

Permanent Musharakah: An Islamic bank participates in the equity of a project and receives a share of the profit on a *pro rata* basis. The length of contract is unspecified, making it suitable for financing long-term projects.

Diminishing Musharakah: This allows equity participation and sharing of profits on a *pro rata* basis, with the bank gradually reducing its equity in the project and ultimately transferring ownership of the asset to the participants; while the entrepreneur progressively purchases the bank's equity, until the Bank has no equity and thus ceases to be a partner.

PRICE EARNINGS MULTIPLE Market price of a share divided by the earnings per share (not applicable when the latter is negative).

RETURN ON AVERAGE ASSETS Net profit (or loss) expressed as a percentage of the average total assets employed during the accounting period; a measure of profitability.

RETURN ON AVERAGE EQUITY Net profit (or loss) expressed as a percentage of average total equity; a measure of profitability.

RETURN ON AVERAGE PAID IN CAPITAL Net profit (or loss) attributable to shareholders expressed as a percentage of the average issued and paid up share capital; a measure of profitability.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY Net profit (or loss) attributable to shareholders expressed as a percentage of the average total owners' equity; a measure of profitability.

SHARIA OR SHARI'A Islamic jurisprudence. Islamic cannon law derived from three sources: the Quran, the Hadith and the Sunnah. A "Sharia-compliant" product meets the requirements of Islamic law.

SHARIA BOARD A committee of Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Sharia-compliant products.

SUKUK An Islamic bond. An asset-backed bond which is structured in accordance with Shariah and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

TAKAFUL Islamic insurance based on the principle of mutual assistance. Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. It is similar to mutual insurance in that members are the insurers as well as the insured.

TOTAL EQUITY The sum of paid up share capital, reserves and minority interest.

TOTAL OWNERS' EQUITY The sum of paid up share capital and reserves.

Corporate Information

NAME OF COMPANY	Ithmaar Bank B.S.C.
LEGAL FORM	Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain, formerly an investment bank, completed in April 2010 a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. Ithmaar Bank B.S.C. is incorporated as a Bahrain shareholding company under Bahrain Commercial Companies Law (Law No. 21 of 2001) with its shares listed on the Bahrain Bourse and the Kuwait Stock Exchange.
COMPANY REGISTRATION NUMBER	CR 15210
STOCK EXCHANGE LISTINGS	Bahrain Bourse and Kuwait Stock Exchange
STOCK CODE	"ITHMR"
REGISTERED OFFICE	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P. O. Box 2820, Manama, Kingdom of Bahrain Telephone: +973 1758 4000, +973 1758 5000 Facsimile: +973 1758 4017, +973 1758 5151 Swift Code: FIBHBHBM E-mail: info@ithmaarbank.com Website: www.ithmaarbank.com
HEAD OFFICE	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P. O. Box 2820, Manama, Kingdom of Bahrain
ACCOUNTING YEAR END	31 December
COMPLIANCE OFFICER	Tawfiq Mohammed Al-Bastaki, Assistant General Manager - Chief Risk Officer
COMPANY SECRETARY	Scott A. Creswell, Assistant General Manager, General Counsel and Company Secretary
AUDITORS	PricewaterhouseCoopers, P.O. Box 21144, Manama, Kingdom of Bahrain

PRINCIPAL OPERATING SUBSIDIARIES AND ASSOCIATES

FAYSAL BANK LIMITED

Full-service retail banking institution that operates in Pakistan.
Ithmaar banking group ownership and control: 65.7%
www.faysalbank.com

BBK

One of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai.
Ithmaar banking group ownership and control: 25.4%
www.bbkonline.com

FAISAL PRIVATE BANK

Swiss-based bank providing Islamic financial services.
Ithmaar banking group ownership and control: 100%
www.faisalprivatebank.com

ITHMAAR DEVELOPMENT COMPANY

Developer and manager of major development projects including real estate, infrastructure, resorts, commercial buildings etc.
Ithmaar banking group ownership and control: 100%
www.ithmaarbank.com

SAKANA HOLISTIC HOUSING SOLUTIONS

Housing solutions through mortgage finance based on Islamic Sharia principles.
Ithmaar banking group ownership: 50% and control: 62.7%
www.sakanaonline.com

SOLIDARITY GROUP HOLDINGS

One of the largest takaful (Islamic insurance) companies in the world.
Ithmaar banking group ownership and control: 33.8%
www.solidarity.com.bh

FIRST LEASING BANK

Sharia-compliant equipment leasing in markets covering Bahrain, UAE, Kuwait, Qatar and Oman.
Ithmaar banking group ownership and control: 43.8%
www.1stleasingbank.com

NASEEJ

Fully integrated real estate and infrastructure development company.
Ithmaar banking group ownership and control: 29.5%
www.naseejproperties.com

Mixed Sources

Product group from well-managed forests and other controlled sources

www.fsc.org

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