

Ahli United Bank B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2010

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

Report on the Financial Statements

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

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AHLI UNITED BANK B.S.C. (continued)**

Opinion

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

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith.

We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

20 February 2011

Manama, Kingdom of Bahrain.

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

	Note	<u>2010</u> US\$ '000	<u>2009</u> US\$ '000
Interest income	4	893,498	934,283
Interest expense	5	384,724	467,698
Net interest income		508,774	466,585
Fees and commissions - net	6	123,319	138,530
Trading income - net	7	28,219	39,439
Net loss on available-for-sale investments	8	(22,110)	(14,064)
Share of profit from associates and joint venture		51,554	40,744
Other operating income		24,303	25,152
		205,285	229,801
OPERATING INCOME		714,059	696,386
Provision for loan losses and contingencies - net	10f	151,671	228,136
NET OPERATING INCOME		562,388	468,250
Staff costs		142,290	142,151
Depreciation		24,046	20,233
Other operating expenses		87,079	73,024
OPERATING EXPENSES		253,415	235,408
PROFIT BEFORE TAX		308,973	232,842
Tax expense	22	16,774	6,756
NET PROFIT FOR THE YEAR		292,199	226,086
<i>Attributable to:</i>			
Bank's equity shareholders		265,499	200,718
Non-controlling interests		26,700	25,368
		292,199	226,086
EARNINGS PER SHARE ATTRIBUTABLE TO THE BANK'S EQUITY SHAREHOLDERS FOR THE YEAR:			
Basic and diluted earnings per share (US cents)	23	5.4	4.2

The attached notes 1 to 38 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

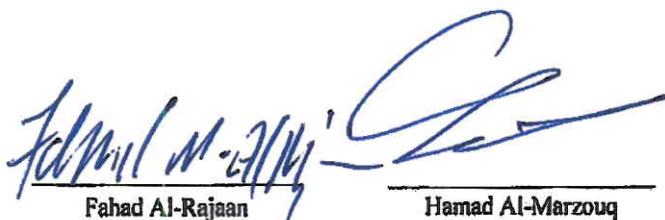
Year ended 31 December 2010

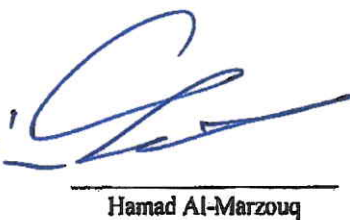
	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Net profit for the year	292,199	226,086
Other comprehensive income		
Directors' fees paid	(1,211)	(1,168)
Donations approved	(1,000)	(1,000)
Currency translation adjustments	(11,315)	(39,377)
Available-for-sale investments:		
Gains arising during the year	19,197	134,119
Transfers to consolidated statement of income on sale of available-for-sale investments	808	23,827
Cash flow hedges:		
(Losses) gains arising during the year	(6,303)	17,166
Transfers to consolidated statement of income	2,455	38,661
Revaluation of freehold land	(19,439)	(53,874)
Share of other comprehensive income of associates	1,335	(1,236)
Other comprehensive (loss) income for the year	(15,473)	117,118
Total comprehensive income for the year	276,726	343,204
Total comprehensive income attributable to:		
Bank's equity shareholders	240,490	341,706
Non-controlling interests	36,236	1,498
	276,726	343,204

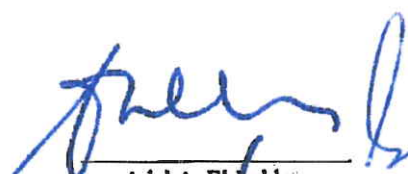
The attached notes 1 to 38 form part of these consolidated financial statements

Ahli United Bank B.S.C.
CONSOLIDATED BALANCE SHEET
31 December 2010

	Note	<u>2010</u> US\$ '000	<u>2009</u> US\$ '000
ASSETS			
Cash and balances with central banks	9	361,376	304,164
Treasury bills and bonds		301,127	969,114
Trading securities		130	376
Deposits with banks and other financial institutions		4,767,843	3,100,446
Loans and advances	10	14,477,713	13,299,999
Non-trading investments	11	4,413,172	3,898,592
Investments in associates and joint venture	12	605,679	537,099
Premises and equipment	13	373,094	355,956
Other assets	14	440,969	483,951
Goodwill and other intangible assets	15	716,358	624,286
TOTAL ASSETS		<u>26,457,461</u>	<u>23,573,983</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		6,610,284	5,549,518
Customers' deposits	16	14,835,796	13,241,266
Term debts	17	946,562	950,054
Other liabilities	18	693,689	649,498
Subordinated liabilities	19	618,955	602,216
TOTAL LIABILITIES		<u>23,705,286</u>	<u>20,992,552</u>
EQUITY			
Ordinary share capital	20	1,223,188	1,193,589
Preference share capital	20	13,937	6,321
Reserves	21	1,155,056	1,013,613
Attributable to the Bank's equity shareholders		<u>2,392,181</u>	<u>2,213,523</u>
Non-controlling interests		359,994	367,908
TOTAL EQUITY		<u>2,752,175</u>	<u>2,581,431</u>
TOTAL LIABILITIES AND EQUITY		<u>26,457,461</u>	<u>23,573,983</u>


Fahad Al-Rajaan
Chairman


Hamad Al-Marzouq
Deputy Chairman


Adel A. El-Labban
Group Chief Executive Officer
& Managing Director

The attached notes 1 to 38 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>Note</i>	<u>2010</u> <i>US\$ '000</i>	<u>2009</u> <i>US\$ '000</i>
OPERATING ACTIVITIES			
Profit before tax		308,973	232,842
Adjustments for:			
Depreciation		24,046	20,233
Net loss on available-for-sale investments	8	22,110	14,064
Provision for loan losses and contingencies - net	10f	151,671	228,136
Share of profit from associates		(51,554)	(40,744)
Staff costs - fair value amortisation of share based transactions	23	1,689	1,108
Operating profit before changes in operating assets and liabilities		456,935	455,639
Changes in:			
Mandatory reserve deposits with central banks		39,217	17,713
Treasury bills and bonds		667,987	267,883
Trading securities		246	22,988
Deposits with banks and other financial institutions		(980,143)	(429,548)
Loans and advances		(1,329,385)	96,939
Other assets		42,982	33,920
Deposits from banks and other financial institutions		1,060,766	396,004
Customers' deposits		1,594,530	63,187
Other liabilities		44,191	(235,725)
Cash from operations		1,597,326	689,000
Income tax paid		(3,090)	(5,184)
Net cash from operating activities		1,594,236	683,816
INVESTING ACTIVITIES			
Purchase of non-trading investments		(1,089,896)	(1,151,162)
Proceeds from sale or redemption of non-trading investments		596,991	807,290
Investments in associates and joint venture		(53,533)	-
Increase in premises and equipment		(60,623)	(41,052)
Dividends received from associates		36,405	38,786
Net cash used in investing activities		(570,656)	(346,138)
FINANCING ACTIVITIES			
Additional investment in subsidiaries	2	(149,004)	-
Proceeds from issue of Class B preference shares		20,125	-
Decrease in subordinated liabilities		(1,258)	(21,360)
Repayment of term debt		-	(399,946)
Dividends and other appropriations paid		(100,229)	(142,762)
Treasury shares sold (purchased)		1,783	(1,665)
Net cash used in financing activities		(228,583)	(565,733)
Foreign currency translation adjustments		(11,315)	(39,377)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		783,682	(267,432)
Cash and cash equivalents at 1 January		2,179,476	2,446,908
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	2,963,158	2,179,476

The attached notes 1 to 38 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

Attributable to Bank's equity shareholders

	Reserves										
	Ordinary share capital US\$ '000	Preference share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Other reserves (Note 21(i)) US\$ '000	Total reserves US\$ '000	Non-controlling interests US\$ '000	Total US\$ '000
Balance at 31 December 2009	1,195,254	6,321	(1,665)	538,297	146,696	261,233	100,383	(32,996)	1,013,613	367,908	2,581,431
Issue of shares on AUBE acquisition (note 2)	18,540	-	-	16,882	-	-	-	-	16,882	-	35,422
Class B preference shares issued (note 20(f))	-	13,937	-	7,806	-	-	-	-	7,806	-	21,743
Class B preference share dividend paid (note 21(j))	-	-	-	-	-	-	(1,129)	-	(1,129)	-	(1,129)
Ordinary share dividend paid (note 21(j))	-	-	-	-	-	-	(97,043)	-	(97,043)	-	(97,043)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(2,057)	(2,057)
Bonus shares issued	-	-	-	-	-	-	-	-	-	-	-
Arising on additional acquisition of a subsidiary (note 2)	-	-	-	(18,422)	-	-	-	-	(18,422)	(36,427)	(54,849)
Conversion of preference shares (note 20 (d) and (g))	13,172	(9,601)	-	(1,174)	-	-	-	(2,397)	(3,571)	-	-
Other equity movements of a subsidiary	-	-	-	-	-	(2,450)	-	-	(2,450)	(5,666)	(8,116)
Sale of treasury shares	-	-	1,665	-	-	-	-	-	-	-	1,665
Equity shares surrendered	(3,778)	3,280	-	(1,120)	-	-	-	-	(1,120)	-	(1,618)
Total comprehensive income for the year	-	-	-	-	-	265,499	(2,211)	(22,798)	240,490	36,236	276,726
Transfer to statutory reserve (note 21(c))	-	-	-	-	26,550	(26,550)	-	-	-	-	-
Proposed dividend on Class B preference shares (note 21(j))	-	-	-	-	-	(149)	149	-	-	-	-
Proposed dividend on ordinary shares (note 21(j))	-	-	-	-	-	(122,697)	122,697	-	-	-	-
Proposed donations	-	-	-	-	-	(1,000)	1,000	-	-	-	-
Balance at 31 December 2010	1,223,188	13,937	-	542,269	173,246	373,886	123,846	(58,191)	1,155,056	359,994	2,752,175

The attached notes 1 to 38 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

Attributable to Bank's equity shareholders

	Reserves										
	Ordinary share capital	Preference share capital	Treasury shares	Share premium	Statutory reserve	Retained earnings	Proposed appro- priations	Other reserves (Note 21(i))	Total reserves	Non-controlling interests	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 31 December 2008	1,126,561	17,128	-	540,029	126,624	237,887	118,319	(171,113)	851,746	399,342	2,394,777
Class B preference share dividend paid (note 21(j))	-	-	-	-	-	-	(3,493)	-	(3,493)	-	(3,493)
Ordinary share dividend paid (note 21(j))	-	-	-	-	-	-	(112,658)	-	(112,658)	-	(112,658)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(26,611)	(26,611)
Bonus shares issued	56,917	-	-	-	-	(56,917)	-	-	(56,917)	-	-
Arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(6,321)	(6,321)
Conversion of preference shares (note 20 (d) and (g))	11,756	(8,998)	-	2,281	-	-	-	(5,039)	(2,758)	-	-
Class B preference shares (surrendered) issued	20	(1,809)	-	(4,013)	-	-	-	-	(4,013)	-	(5,802)
Treasury shares purchased	-	-	(1,665)	-	-	-	-	-	-	-	(1,665)
Total comprehensive income for the year	-	-	-	-	-	200,718	(2,168)	143,156	341,706	1,498	343,204
Transfer to statutory reserve (note 21(c))	-	-	-	-	20,072	(20,072)	-	-	-	-	-
Proposed dividend on Class B preference shares (note 21(j))	-	-	-	-	-	(1,129)	1,129	-	-	-	-
Proposed dividend on ordinary shares (note 21(j))	-	-	-	-	-	(97,043)	97,043	-	-	-	-
Proposed directors' fees	-	-	-	-	-	(1,211)	1,211	-	-	-	-
Proposed donations	-	-	-	-	-	(1,000)	1,000	-	-	-	-
Balance at 31 December 2009	1,195,254	6,321	(1,665)	538,297	146,696	261,233	100,383	(32,996)	1,013,613	367,908	2,581,431

The attached notes 1 to 38 form part of these consolidated financial statements

31 December 2010

1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. (AUB or the Bank) was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed below (collectively known as the Group) are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through 88 branches, as at 31 December 2010, in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq and the United Kingdom. It also operates in the State of Qatar, Sultanate of Oman and Great Socialist People's Libyan Arab Jamahiriya (Libya) through its associates with a network of 42 branches as at 31 December 2010. The Bank operates under a retail banking licence issued by the Central Bank of Bahrain. The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 20 February 2011.

2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December 2010 and 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired are included in the consolidated statement of income from the date of acquisition.

The following are the Bank's principal subsidiaries:

<i>Name</i>	<i>Country of incorporation</i>	<i>Nominal holding*</i>	
		<i>31 December 2010</i>	<i>31 December 2009</i>
Ahli United Bank (U.K.) PLC (AUBUK)	United Kingdom	100.0%	100.0%
Ahli United Bank K.S.C. (AUBK) (Formerly The Bank of Kuwait and the Middle East K.S.C.)	State of Kuwait	74.9%	74.9%
Kuwait and Middle East Financial Investment Co. K.S.C. (closed) (KMEFIC), a subsidiary of AUBK	State of Kuwait	75.2%	75.2%
Ahli United Bank (Egypt) S.A.E. (AUBE)	Arab Republic of Egypt	85.1%	50.7%
Commercial Bank of Iraq P.S.C. (CBIQ)	Republic of Iraq	56.1%	51.5%

* Adjusted for subsidiaries' holdings

During the year, AUB's equity stake in AUBE initially increased to 79.6% following a Mandatory Dual Tender Offer to AUBE's shareholders which concluded on 17 January 2010. This resulted in AUB acquiring 26.6 million shares of AUBE at Egyptian Pounds (LE) 37 per share. The purchase consideration was settled by payment in cash of LE 688.8 million (under the cash offer), the issue of 74.2 million AUB ordinary shares at market value and the issue of US\$ 18.0 million subordinated bonds under the securities offer. The excess of the purchase consideration over the share of net asset value acquired was debited to shareholders' equity during the year as prescribed under IAS 27 - Consolidated and Separate Financial Statements.

2 BASIS OF CONSOLIDATION (continued)

Further to the above, AUB's equity stake in AUBE further increased from 79.6% to 85.1% following a second tender offer to AUBE's shareholders which concluded on 8 July 2010. This resulted in AUB acquiring an additional 3.3 million shares in AUBE at Egyptian Pounds (LE) 37 per share. Following consummation of the tender offer, AUBE shares have now been voluntarily delisted from The Egyptian Stock Exchange.

After receiving final approval from the Central Bank of Kuwait, shareholders and other regulatory authorities, AUBK, with effect from 1 April 2010 converted its business in accordance with Islamic Sharia'a. As a result, AUBK converted its conventional banking products into Islamic banking products after negotiation and agreement with its customers.

3 ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of freehold land, trading and available-for-sale financial assets and all derivatives. In addition, as more fully discussed below in note 3.3(h)(i), assets and liabilities that are fair value hedged are adjusted to the extent of the fair value of the risk being hedged. The consolidated financial statements are presented in US Dollars which is the Group's functional currency, and all values are rounded to the nearest thousand (US Dollars thousand) except where otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

New standards and interpretations issued but not yet effective

- IAS 32 Financial Instruments (Revised): Presentation - Classification of Rights Issues effective annual periods commencing 1 February 2010.
- IAS 24 Related Party Disclosures (Revised): effective annual periods commencing 1 January 2011.
- IFRS 9: Financial Instruments: Classification and Measurement effective annual periods commencing 1 January 2013.

The application of the above standards other than IFRS 9 is not expected to have a material impact on the consolidated financial statements as and when they become effective. IFRS 9 was issued in November 2009 and replaces the parts of IAS 39 relating to the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after 1 January 2013. The Group is assessing the impact and timing of application of IFRS 9 on the Group's financial statements.

The Group has adopted the following new and amended International Accounting Standards/International Financial Reporting Standards as of 1 January 2010.

IFRS 3 - Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial statements (Amended) effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

Refer to note 2 for the impact of application of this standard to the Group's additional investments in Ahli United Bank Egypt S.A.E. (AUBE).

3.2 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

31 December 2010

3 ACCOUNTING POLICIES (continued)

3.2 Significant accounting judgements and estimates (continued)

Judgements

Judgements are made in the classification of available-for-sale, held-for-trading and held-to-maturity investments based on management's intention at acquisition of the financial asset, and the allocation and impairment testing of goodwill and intangible assets with indefinite lives to cash generating units. Judgements are also made in determination of the objective evidence that a financial asset is impaired.

Estimates

Pension plans

Estimates and assumptions are used in determining the Group's pension liabilities. The principal actuarial assumptions used for the defined benefit plan are set out in note 26 to the consolidated financial statements.

Impairment losses on loans and advances and non-trading investments

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing loans, portfolios of performing loans with similar risk characteristics where the risk of default has increased, as well as provisions for non-trading investments. These are more fully described in note 3.3 (g).

Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such provisions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Investments in associates and joint venture

Associated companies are companies in which the Group exercises significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. The Group classifies an investment as "joint venture" when it is a party to a contractual joint venture agreement. Investments in associated companies and joint ventures are accounted for using the equity method.

The reporting dates of the associates and joint venture and the Group are identical and the associates' and joint ventures' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(b) Foreign currency translation

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the relevant functional currency rate of exchange ruling at the balance sheet date. All differences are taken to "trading income - net" in the consolidated statement of income.

31 December 2010

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(b) Foreign currency translation (continued)

(i) Transactions and balances (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary available-for-sale items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items, unless these items are part of trading securities as explained in note 3.3(c)(iii) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income.

(ii) Group companies

Assets and liabilities of foreign subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the period. Any exchange differences arising on translation are taken to "foreign exchange translation reserve" forming part of equity.

(c) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment, except in the case of trading securities, the acquisition costs of which are expensed. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest method and taken to interest income or interest expense as appropriate.

(i) Date of recognition

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Group accounts for any changes in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. The change in fair value is recognised in the consolidated statement of income for assets classified as "trading securities" and it is recognized in equity for assets classified as available-for-sale. The change in value is not recognized for assets carried at cost or amortised cost.

(ii) Treasury bills and bonds

Treasury bills and bonds are initially recognised at cost. Premiums and discounts are amortised on a systematic basis to their maturity. These treasury bonds are issued by the respective Central Banks on behalf of the Governments of Kuwait, Iraq and Egypt and are held to maturity.

(iii) Trading securities

A financial asset is classified as "held-for-trading" if it is acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. Trading securities are initially recognised at cost, being the fair value of the consideration given and are subsequently measured at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated statement of income under "trading income - net" while dividend income is recorded in "dividend income" when the right of the payment has been established.

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3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Held-to-maturity

Non-trading investments with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity are classified as held-to-maturity. After initial measurement, these are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The losses arising from impairment of such investments are recognised in the consolidated statement of income line "net loss on available-for-sale investments".

(v) Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. This accounting policy relates to the balance sheet captions "deposits with banks and other financial institutions" and "loans and advances". After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for impairment. The losses arising from impairment of such loans and advances are recognised in the consolidated statement of income in "provision for loan losses and contingencies-net" and in an impairment allowance account in the consolidated balance sheet. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

(vi) Available-for-sale

Non-trading investments that are not classified as held-to-maturity, held-for-trading or loans and advances are classified as available-for-sale. After initial recognition, available-for-sale investments are remeasured at fair value. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment provision. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, settled or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the period.

Any gain or loss arising from a change in fair value of available-for-sale investments, which is part of an effective hedging relationship, is recognised directly in the consolidated statement of income to the extent of the changes in fair value being hedged.

(vii) Derivatives

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income - net".

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried as held for trading. The changes in fair value of such embedded derivatives are recognised in the consolidated statement of income.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(viii) Deposits, term debts and subordinated liabilities.

These financial liabilities are carried at amortised cost, less amounts repaid.

(ix) Reclassification of financial assets

As permitted by Reclassification of Financial Assets: Amendments to IAS 39 - Recognition and Measurement and IFRS 7: Disclosures, the Group made the following reclassifications with effect from 1 July 2008:

- (i) Certain investments classified initially as "available-for-sale" investments into "loans and receivables" category within "non-trading investments"; and
- (ii) Certain investments classified initially as "trading securities" into "available-for-sale" category.

Refer notes 11(i) and 11(ii) for further details.

(d) Derecognition of financial assets and financial liabilities

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(e) Repurchase and resale agreements

Where investments, including those reclassified into "loans and receivables", are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is classified as "deposits from banks and other financial institutions". The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under similar commitments to resell are not recognised on the consolidated balance sheet and the consideration paid is recorded in "deposits with banks and other financial institutions". The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(f) Determination of fair value

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the balance sheet date.

The fair value of liabilities with a demand feature is the amount payable on demand.

The fair value of interest-bearing financial assets and financial liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques.

Investments in funds are stated at net asset values provided by the fund managers.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

(g) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or a group of financial assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated statement of income and credited to an allowance account. In the case of equity investments, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity investments are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in equity.

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

The present value of the estimated future cash flows for loans and other interest bearing financial assets is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In addition to specific provisions against individually significant financial assets, the Group also makes collective impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated. Factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic changes.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the 'provision for loan losses and contingencies - net' in the consolidated statement of income.

(h) Hedge accounting

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. Derivatives are stated at fair value. Derivatives with positive market values are included in "other assets" and derivatives with negative market values are included in "other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each reporting date. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(h) Hedge accounting (continued)

(ii) Cash flow hedges

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in equity. The ineffective portion of the gain or loss, if any, on the hedging instrument is recognised immediately in the consolidated statement of income as "trading income - net".

The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the year.

(i) Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis.

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Interest income is recognised using the effective interest method, taking account of the principal outstanding and the rate applicable. Interest that is 90 days or more overdue is excluded from income. Notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount future cash flows to their net present values.

(ii) Fees and commissions income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commissions income are recognised when earned.

(iii) Dividend income

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

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(k) Business combinations, goodwill and other intangible assets

Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured on initial recognition at their fair values on the date of recognition. Following initial recognition, intangible assets are carried at originally recognised values less any accumulated impairment losses.

Impairment of goodwill and intangible assets is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format determined in accordance with IFRS 8 Operating Segments.

(l) Premises and equipment

Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by reference to market-based evidence. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve.

Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- | | |
|--------------------------------|-----------------------|
| - Freehold buildings | 15 to 30 years |
| - Leasehold land and buildings | Over the lease period |
| - Other premises and equipment | 2 to 5 years |

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits, together with those deposits with banks and other financial institutions and treasury bills having an original maturity of three months or less.

(n) Provisions

Provisions are recognised when the Group has a present obligation arising from a past event, and the costs to settle the obligation are both probable and able to be reliably estimated.

(o) Employee benefits

Defined benefit pension plan

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme, outside of a defined corridor, is charged to the consolidated statement of income over the remaining service lives of the scheme members.

Defined contribution plans

The Group also operates a defined contribution plan, the costs of which are recognised in the period to which they relate.

(p) Taxes

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

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

(q) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not incorporated in the consolidated balance sheet.

(r) Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders.

(s) Redeemable preference shares

Preference shares which carry a mandatory coupon, and are redeemable at a fixed future date, are recognised as liabilities in the consolidated balance sheet, at amortised cost. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(t) Dividends on ordinary shares

Dividends on ordinary shares are recognised as liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the period that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

(u) Employees' share purchase plan

The Group operates an employees' share purchase plan for certain eligible employees. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated statement of income with a corresponding effect to equity.

(v) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the commission received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

(w) Islamic banking

The Islamic banking activities of the group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board. The financial statements relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable.

(x) Islamic products

Murabaha

An agreement whereby the Group sells to a customer commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the Group (seller) informs the purchaser of the price at which the asset had been purchased and also stipulates the amount of profit to be recognized.

Istisna'a

A sales contract between the Group (contract owner) and a customer (contractor) whereby the customer, based on an order from the Group, undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the Group for an agreed-upon price and method of settlement, whether that be in advance, by instalments or deferred to a specific future date.

Ijara

A lease agreement between the Group (lessor) and the customer (lessee), whereby the Group earns profit by charging rentals on assets leased to customers.

Tawarruq

A sales agreement whereby a customer buys commodities from the Group on a deferred payment basis and then immediately resells them for cash to a third party.

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3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(x) Islamic products (continued)

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-UI-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-UI-Mal would bear the loss of its funds while the Mudarib would bear the loss of its efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group acts as Mudarib when accepting funds from depositors and as Rab-UI-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Income from Murabaha, Tawarruq and Istisna'a are recognised on an effective yield basis which is established on the initial recognition of the asset and is not revised subsequently.

Income from Ijara is recognized over the term of the Ijara agreement so as to yield a constant rate of return on the net investment outstanding.

Income (loss) on Mudaraba financing is based on expected results adjusted for actual experience as applicable, while similarly the losses are charged to income.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(y) Unrestricted investment accounts' share of profit

The profit computed after taking into account all income and expenses at the end of a financial year is distributed between unrestricted investment account holders which include Mudaraba depositors and the Bank's shareholders. The share of profit of the unrestricted account holders is calculated on the basis of their daily deposit balances over the year, after reducing the agreed and declared Mudaraba fee.

In the case of expenses, which arise out of issues relating to non compliance with Shari'a regulations, then such expenses are not to be borne by the unrestricted investment account holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

4 INTEREST INCOME

	<u>2010</u>	<u>2009</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Treasury bills and bonds	42,425	54,022
Deposits with banks and other financial institutions	38,017	41,446
Loans and advances	706,837	730,497
Non-trading investments	106,219	108,318
	893,498	934,283

5 INTEREST EXPENSE

	<u>2010</u>	<u>2009</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Deposits from banks and other financial institutions	91,760	85,110
Customers' deposits	265,997	343,716
Term debts	12,029	18,836
Subordinated liabilities	14,938	20,036
	384,724	467,698

6 FEES AND COMMISSIONS - NET

	<u>2010</u>	<u>2009</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Fees and commissions income		
- Retail and corporate banking	88,296	95,325
- Management, performance and brokerage fees	39,303	47,199
Fees and commissions expense	(4,280)	(3,994)
	123,319	138,530

Included in 'management, performance and brokerage fees' is US\$ 9.9 million (2009: US\$ 12.4 million) of fee income relating to trust and other fiduciary activities.

7 TRADING INCOME - NET

	<u>2010</u>	<u>2009</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Foreign exchange gains	27,690	34,336
Loss on trading securities	-	(819)
Others	529	5,922
	28,219	39,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

8 NET LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Realised gains - net	18,500	35,984
(Less): impairment losses - net	(40,610)	(50,048)
	(22,110)	(14,064)

9 CASH AND BALANCES WITH CENTRAL BANKS

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Cash and balances with central banks, excluding mandatory reserve deposits (note 24)	183,137	86,708
Mandatory reserve deposits with central banks	178,239	217,456
	361,376	304,164

Mandatory reserve deposits are not available for use in day-to-day operations.

10 LOANS AND ADVANCES

	<u>2010</u>		<u>2009</u>	
	<u>US\$ '000</u>	<u>%</u>	<u>US\$ '000</u>	<u>%</u>
a) By industry sector				
Consumer/personal	3,538,629	23.7	3,442,657	25.2
Real estate	4,423,194	29.7	3,908,086	28.6
Trading, manufacturing and services	4,042,613	27.1	3,681,371	26.9
Banks and other financial institutions	967,754	6.5	911,976	6.7
Construction	642,498	4.3	539,889	4.0
Government/public sector	415,291	2.8	425,296	3.1
Others	880,302	5.9	754,919	5.5
	14,910,281	100.0	13,664,194	100.0
(Less): Impairment allowance for loan losses (note 10(e))	(432,568)		(364,195)	
	14,477,713		13,299,999	

	<u>2010</u>		<u>2009</u>	
	<u>US\$ '000</u>	<u>%</u>	<u>US\$ '000</u>	<u>%</u>
b) By geographic region				
GCC countries	11,793,296	79.1	11,104,185	81.3
Arab Republic of Egypt	1,386,131	9.3	881,271	6.4
United Kingdom	799,778	5.4	670,695	4.9
Europe (excluding United Kingdom)	626,786	4.2	782,021	5.7
Asia (excluding GCC countries)	85,888	0.6	64,923	0.5
Rest of the world	218,402	1.4	161,099	1.2
	14,910,281	100.0	13,664,194	100.0
(Less): Impairment allowance for loan losses (note 10(e))	(432,568)		(364,195)	
	14,477,713		13,299,999	

GCC countries comprise the members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

Refer note 31 (c) for disclosure of credit quality of loans and advances.

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10 LOANS AND ADVANCES (continued)**c) Age analysis of past due but not impaired loans and advances**

	<i>2010</i>			<i>Total</i> <i>US\$ '000</i>
	<i>Upto 30 days</i>	<i>31 to 60</i>	<i>61 to 89</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Loans and advances				
Retail	45,022	47,201	36,664	128,887
Corporate	34,258	20,981	60,939	116,178
	79,280	68,182	97,603	245,065
	<i>2009</i>			<i>Total</i> <i>US\$ '000</i>
	<i>Upto 30 days</i>	<i>31 to 60</i>	<i>61 to 89</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Loans and advances				
Retail	26,551	43,456	36,283	106,290
Corporate	46,274	30,609	99,737	176,620
	72,825	74,065	136,020	282,910

The past due loans and advances upto 30 days include those that are only past due by a few days. None of the above past due loans are considered to be impaired.

d) Individually impaired loans and advances

	<i>2010</i>			<i>2009</i>		
	<i>Retail</i> <i>US\$ '000</i>	<i>Corporate</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>	<i>Retail</i> <i>US\$ '000</i>	<i>Corporate</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Gross impaired loans	85,785	276,320	362,105	147,216	237,023	384,239
Specific impairment provisions	(73,078)	(234,890)	(307,968)	(113,876)	(173,836)	(287,712)
	12,707	41,430	54,137	33,340	63,187	96,527
Impaired loan coverage	85.2%	85.0%	85.0%	77.4%	73.3%	74.9%

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2010 amounts to US\$ 130.2 million (2009: US\$ 71.4 million). The collateral consists of securities, letters of guarantee and properties.

The carrying amount of renegotiated loans as at 31 December 2010 is US\$ 97.2 million (2009: US\$ 81.6 million).

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10 LOANS AND ADVANCES (continued)**e) Impairment allowance for loans and advances**

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	2010			2009		
	<i>Retail</i> US\$ '000	<i>Corporate</i> US\$ '000	<i>Total</i> US\$ '000	<i>Retail</i> US\$ '000	<i>Corporate</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January	138,531	225,664	364,195	131,830	158,419	290,249
Add/(Less):						
Arising on IFRS transition of subsidiary	-	18,339	18,339	-	-	-
Amounts written off during the year	(63,311)	(52,173)	(115,484)	(14,907)	(149,237)	(164,144)
Charge for the year	26,234	129,148	155,382	35,901	201,751	237,652
Recoveries during the year	(3,374)	(16,462)	(19,836)	(6,981)	(9,561)	(16,542)
Interest suspended during the year (net)	3,628	5,828	9,456	4,702	15,387	20,089
Exchange rate and other adjustments	409	20,107	20,516	(12,014)	8,905	(3,109)
At 31 December	102,117	330,451	432,568	138,531	225,664	364,195

f) Provision for loan losses and contingencies - net

The net charge for the year for provision for loan losses and contingencies in the consolidated statement of income is determined as follows:

	2010 US\$ '000	2009 US\$ '000
Impairment charge for the year on loans and advances (note 10(e))	155,382	237,652
Recoveries from loans and advances during the year (including from fully provided loans written off in previous years)	(25,748)	(19,424)
Net charge for contingencies	22,037	9,908
Provision for loan losses and contingencies - net	151,671	228,136

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11 NON-TRADING INVESTMENTS

	2010			2009	
	<i>Held-to-maturity</i> <i>US\$'000</i>	<i>Available-for-sale</i> <i>US\$'000</i>	<i>Loans and receivables</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Quoted investments					
GCC government bonds and debt securities	-	428,418	152,247	580,665	400,047
Other government bonds and debt securities	-	258,006	25,564	283,570	157,724
Floating rate notes and certificates of deposit:					
- issued by banks and other financial institutions	-	1,143,578	892,915	2,036,493	1,878,989
- issued by corporate bodies	21,220	501,253	467,751	990,224	901,832
Equity shares	-	2,351	-	2,351	16,737
Funds at net asset value	-	152,984	-	152,984	158,603
	21,220	2,486,590	1,538,477	4,046,287	3,513,932
Unquoted investments					
GCC government bonds	-	109,588	-	109,588	138,547
Other government bonds and debt securities	-	35,575	-	35,575	30,544
Floating rate notes and certificates of deposit:					
- issued by banks and other financial institutions	-	10,995	-	10,995	-
Equity shares at cost	-	136,305	-	136,305	123,847
Funds at net asset value	-	122,643	-	122,643	119,423
Other investments	-	75,344	-	75,344	59,157
	-	490,450	-	490,450	471,518
Total	21,220	2,977,040	1,538,477	4,536,737	3,985,450
(Less): Allowance for impairment	-	(123,565)	-	(123,565)	(86,858)
	21,220	2,853,475	1,538,477	4,413,172	3,898,592

Refer note 31 (c) for disclosure of credit quality of non-trading investments.

Non-trading investments of US\$ 1,992 million (2009: US\$ 1,042 million) have been sold under agreements to repurchase, against which the Group had borrowings of US\$ 1,645 million (2009: US\$ 878 million), included under "deposits from banks and other financial institutions".

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11 NON-TRADING INVESTMENTS (continued)

The movements in provision for impairment on available-for-sale investments were as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
At 1 January	86,858	88,244
Add/(Less):		
Charge for the year	40,610	35,975
Amounts written off during the year	-	(30,722)
Exchange rate and other adjustments	(3,903)	(6,639)
	<u>123,565</u>	<u>86,858</u>
At 31 December	<u>123,565</u>	<u>86,858</u>

The deterioration in the financial markets in the third quarter of 2008 was viewed globally as a rare circumstance to have occurred in the financial sector. The IASB has issued "Reclassification of Financial Assets: Amendments to IAS 39 - Recognition and Measurement and IFRS 7: Disclosures" which permits the reclassification of certain financial assets under such rare circumstances. Accordingly, the Group had performed the following reclassifications:

(i) Financial assets reclassified into the "loans and receivables" category from "available-for-sale" category

The carrying value of the financial assets reclassified into the loans and receivables category from available-for-sale category as at the date of reclassification of 1 July 2008 was US\$ 1,991,712 thousand and the fair value losses recognised in the cumulative changes in available-for-sale reserve upto that date was US\$ 108,527 thousand.

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Carrying value as at 31 December	<u>1,538,477</u>	<u>1,688,534</u>
Fair value as at 31 December	<u>1,455,024</u>	<u>1,571,622</u>
Fair value losses that would have been recognised in the cumulative changes in available-for-sale reserve had the non-trading investments not been reclassified	<u>(83,453)</u>	<u>(116,912)</u>

The Group earned interest income on these investments at an effective interest rate of 3.7% (2009: 4.3%) and the carrying values of these financial instruments reflect the cash flows expected to be recovered at the date of reclassification of these financial assets.

(ii) Financial assets reclassified into the "available-for-sale" category from "trading securities" category

The carrying value of the financial assets reclassified into the available-for-sale category from trading securities category as at the date of reclassification of 1 July 2008 was US\$ 86,901 thousand and the fair value losses recognised in the consolidated statement of income upto that date was US\$ 3,823 thousand.

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Carrying value and fair value as at 31 December	<u>44,036</u>	<u>47,336</u>
Fair value gains that would have been recognised in the consolidated statement of income for the year had the financial assets not been reclassified.	<u>2,857</u>	<u>739</u>

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12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The principal associates and joint venture of the Group are:

a) Associates

Name	Country of incorporation	Holding	
		2010	2009
Ahli Bank Q.S.C.	State of Qatar	36.4%	38.1%
Ahli Bank S.A.O.G.	Sultanate of Oman	35.0%	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	40.0%	-

On completion of registration of 2.92 million shares due to a private placement subscription by the Qatar Investment Authority in Ahli Bank Q.S.C., AUB's holding was diluted to 36.4% as of 31 December 2010. Further, during 2011, on completion of registration of an additional 5.84 million shares due to a private placement subscription by the Qatar Investment Authority in Ahli Bank Q.S.C., AUB's holding will be diluted to 33.3%.

During 2010, the Bank acquired a 40% stake in UBCI at a purchase consideration of LYD 68.2 million (USD 53.5 million).

b) Joint venture

Name	Country of incorporation	Holding	
		2010	2009
Legal & General Gulf B.S.C. (c) *	Kingdom of Bahrain	50.0%	50.0%

* Provides conventional and takaful life and health insurance.

The summarised financial information of the Group's associates and joint venture was as follows:

	2010	2009
	US\$ '000	US\$ '000
Assets	7,333,159	6,705,223
Liabilities	6,413,921	5,904,854
Revenues	287,741	226,847
Net profit for the year	148,640	103,123

13 PREMISES AND EQUIPMENT

The net book values of the Group's premises and equipment are:

	2010	2009
	US\$ '000	US\$ '000
Freehold land	130,449	138,101
Freehold buildings	25,471	22,987
Leasehold land and buildings	105,762	83,953
Capital work-in-progress	31,301	55,927
Others	80,111	54,988
	373,094	355,956

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14 OTHER ASSETS

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Tax assets (note 22)	331	4,605
Interest receivable	123,410	85,332
Derivative assets (note 28)	148,247	191,329
Prepayments and others	168,981	202,685
	440,969	483,951

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	<u>2010</u>			<u>2009</u>		
	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	505,251	119,035	624,286	514,517	120,053	634,570
Acquisitions during the year	-	85,138	85,138	151	-	151
Exchange rate and other adjustments	14,619	(7,685)	6,934	(9,417)	(1,018)	(10,435)
At 31 December	519,870	196,488	716,358	505,251	119,035	624,286

Goodwill:

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes.

The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is as follows:

	<u>2010</u>		<u>2009</u>	
	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Goodwill</i>	<i>Intangible assets</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Retail banking	182,803	64,841	177,912	39,282
Corporate banking, treasury and investments	222,012	100,209	215,392	60,709
Private banking and wealth management	115,055	31,438	111,947	19,044
	519,870	196,488	505,251	119,035

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15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)*Key assumptions used in estimating recoverable amounts of cash-generating units*

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by senior management, extrapolated for five year projections using nominal Gross Domestic Product growth rate in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments. The discount rate used in relation to the significant portion of the goodwill requiring impairment testing was 9.8 % (2009: 10.9%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

Intangible assets:-

Intangible assets comprises primarily the Group's banking licenses, including the current year's addition, which have indefinite lives. Based on an annual impairment assessments of the intangible assets, no indications of impairment were identified. The fair value of a banking license is determined at the time of acquisition by discounting the future expected profits from its acquisition and its projected terminal value.

16 CUSTOMERS' DEPOSITS

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Current and call accounts	2,636,332	2,221,678
Saving accounts	1,168,211	857,831
Time deposits	11,031,253	10,161,757
	<u>14,835,796</u>	<u>13,241,266</u>

17 TERM DEBTS

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Medium Term Syndicated Deposit (carrying interest rate of three-month LIBOR plus 0.85% per annum, repayable in October 2011)	796,562	800,054
Long term debt (carrying interest rate of six-month LIBOR plus 0.275% per annum, repayable in September 2012)	150,000	150,000
	<u>946,562</u>	<u>950,054</u>

Of the above medium term syndicated deposit, US\$ 618 million has been extended for a further period upto 30 April 2012 at LIBOR plus 0.85% per annum.

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18 OTHER LIABILITIES

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Accruals	95,896	79,010
Interest payable	136,674	127,540
Derivative liabilities (note 28)	243,582	243,287
Other credit balances	217,537	199,661
	693,689	649,498

19 SUBORDINATED LIABILITIES

These borrowings are subordinated to the claims of all other creditors of the respective banks.

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(a) Ahli United Bank B.S.C.		
- US Dollars – non-convertible portion (50%) of Class A non-cumulative preference shares carrying interest at 1.50% over twelve-month LIBOR, repayable on 2 January 2015, with an issuer option to redeem after 1 January 2010 subject to three months notice (also refer note 20 (d)).	225,000	225,000
- US Dollars – interest at three-month LIBOR plus a margin of 0.95% up to 2 December 2010 and margin of 1.45% thereafter, repayable on 2 December 2015 with an issuer option to redeem after 2 December 2010 subject to one month notice.	75,000	75,000
- Great Britain Pounds – interest at six-month LIBOR plus 1.00%, repayable in 2012.	30,910	31,849
- US Dollars - interest at six-month LIBOR plus a margin of 0.82%, repayable on 15 December 2016, convertible into ordinary shares at the holder's option at the rate of US\$ 1.24 per share between the third and sixth anniversary from the loan agreement dated 18 November 2006 (also refer note 23).	200,000	200,000
- US Dollars - interest at 6.5% p.a., repayable at 5 years and one day with an issuer option to extendable for a further period of 5 years and one day at 7% per annum.	50,000	50,000
- US Dollars - interest at three-month LIBOR plus a margin of 1% upto 15 March 2015, and three-month LIBOR, plus a margin of 1.5% from 16 March 2015 until maturity date, repayable 10 years from the issue date of 20 January 2010 (note 2).	17,997	-
(b) Ahli United Bank (U.K.) PLC		
- US Dollars – interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable in 2013.	2,267	2,267
- Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable in 2013.	2,483	2,558
- Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable in 2011.	1,625	1,675
- US Dollars - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable in 2011.	1,485	1,485
- Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable at 5 years and one day notice.	6,371	6,565
- US Dollars - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable at 5 years and one day notice.	5,817	5,817
	618,955	602,216

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20 SHARE CAPITAL

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(a) Authorised :		
- Ordinary share capital 8,000 million shares (2009: 8,000 million shares) of US\$ 0.25 each	<u>2,000,000</u>	<u>2,000,000</u>
- Preference share capital 1,000 million (2009: 1000 million shares) Class A preference shares of US\$ 0.25 each	<u>250,000</u>	<u>250,000</u>
300 million (2009: 250 million) Non-Cumulative Fully Convertible Class B preference shares of US\$ 0.25 each	<u>75,000</u>	<u>62,500</u>
	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(b) Issued and fully paid:		
- Ordinary share capital 4,907.9 million shares of US\$ 0.25 each (2009: 4,781.0 million shares of US \$ 0.25 each) During the year, the Bank issued 52.7 million ordinary shares of US\$ 0.25 each upon conversion of Tranche III of Class B preference shares (notes 20 (e) and (f)) and the issue of 74.2 million shares as part of the dual tender offer (note 2)	<u>1,223,188</u>	<u>1,195,254</u>

As at 31 December 2010, the Group held no treasury shares (2009: 3 million at a cost of US\$ 1,665 thousand).

- Preference share capital 55.7 million Non-Cumulative Fully Convertible Class B preference shares of US\$ 0.25 each (2009 : 25.3 million Non-Cumulative Fully Convertible Class B preference shares) (note 20 (f)).	<u>13,937</u>	<u>6,321</u>
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(c) Conversion of Class A preference shares

As per the terms of issue of the Class A preference shares, 577.5 million ordinary shares were issued, on 1 January 2008, upon conversion of 50% of Class A preference shares, including the bonus adjustment for the years 2005 and 2006.

- (d) The remaining 50% of the Class A preference shares are redeemable in cash on 1 January 2015, or at an earlier date after 1 January 2010 if exercised by the Bank, at US\$ 0.45 per share. These preference shares not subject to conversion (recorded as subordinated liabilities) would receive preferential treatment over holders of ordinary shares and Class B preference shares, but shall be subordinated to all other liabilities of the Bank. The redeemable portion of the Class A preference shares amounting to US\$ 225 million (31 December 2009: US\$ 225 million) is included in subordinated liabilities (note 19(a)).

20 SHARE CAPITAL (continued)

(e) An Employee Share Purchase Plan ("ESPP") was established in accordance with the Board of Directors' approval and the subsequent approval of the Extraordinary General Assembly of Shareholders meeting dated 5 October 2004 and further regulatory approvals obtained from:

- (i) Capital Markets Supervision Directorate of CBB vide their letters dated 2 September 2004, 9 November 2004 and 18 April 2005;
- (ii) Banking Supervision Directorate of CBB vide their letters dated 5 September 2004 and 17 April 2005; and
- (iii) Ministry of Commerce vide their letters dated 8 September 2004 and 9 April 2005.

Subsequent amendments were duly approved by the regulatory authorities.

As per the approved plan, the Non-Cumulative Fully Convertible Class B preference shares ("Class B preference shares") were authorised for issuance to the employees of the Bank and its subsidiary in UK, in five annual tranches over a five-year period commencing 1 January 2005 at prices determined by the Board of Directors within set parameters. The Class B Preference Shares are mandatorily convertible into an equivalent number of ordinary shares adjusted for any bonus share issues on the conversion date of each tranche.

The details of Class B preference shares issued, conversion dates of respective issues and the resultant conversion effect duly adjusted for bonus share issues for the years 2005, 2006, 2007 and 2008 and the rights issue adjustment factor for 2007 are as follows:

	<i>Conversion date</i>	<i>Numbers in million</i>	
		<i>2010</i>	<i>2009</i>
Number of Class B preference shares issued :			
Tranche - I	1 January 2008	119.9	119.9
Tranche - II	1 January 2009	36.0	36.0
Tranche - III	1 January 2010	38.4	38.4
Tranche - IV, V and VI	1 January 2011	55.7	-
Total Issue Class B preference shares - 31 December 2007		250.0	194.3
Add: Bonus shares @ 5% for 2005 as approved at the Bank's Annual General Assembly of Shareholders' meeting held on 27 March 2006.		12.5	9.7
		262.5	204.0
Add: Bonus shares @ 10% for 2006 as approved at the Bank's Annual General Assembly of Shareholders' meeting held on 25 March 2007.		26.2	20.4
		288.7	224.4
Add: Rights issue conversion adjustment factor @ 2.834% as approved at the Bank's Extraordinary General Assembly of Shareholders' meeting held on 18 October 2007.		8.2	6.3
		296.9	230.7
Less : Conversion of Tranche I of Class B preference shares (refer (f) below).		(142.3)	(142.3)
		154.6	88.4
Add: Bonus shares @ 10% for 2007 as approved at the Bank's Annual General Assembly of Shareholders' meeting held on 3 March 2008.		15.5	8.8
		170.1	97.2
Less : Conversion of Tranche II of Class B preference shares (refer (f) below).		(47.0)	(47.0)
		123.1	50.2
Add: Bonus shares @ 5% for 2008 as approved at the Bank's Annual General Assembly of Shareholders' meeting held on 18 March 2009.		6.1	2.5
		129.2	52.7
Less : Conversion of Tranche III of Class B preference shares (refer (f) below).		(52.7)	-
Total number of ordinary shares when converted (refer (g) below)		76.5	52.7

20 SHARE CAPITAL (continued)

(f) Conversion of Tranche I, II and III of Class B preference shares

As per the terms of the issue of the Employee Share Purchase Plan (ESPP), upon conversion of Tranche-I of the Class B preference shares on 1 January 2008, Tranche II of the Class B preference shares on 1 January 2009 and Tranche III of the Class B preference shares on 1 January 2010, 142.3 million ordinary shares, 47.0 million ordinary shares and 52.7 million ordinary shares respectively were issued, including the bonus adjustment for the years 2005, 2006, 2007 and 2008 and the rights issue adjustment factor for 2007.

Issue of Tranche IV, V and VI of Class B preference shares

During the year, following the recommendation of the Board of Directors and Extraordinary General Assembly and regulatory approvals, the Bank issued 55.7 million Class B non-cumulative fully convertible preference shares (Class B shares) under Tranches IV, V and VI at prices of US\$ 1.12, US\$ 0.63 and US\$ 0.39 per share respectively. These shares are mandatorily convertible into an equal number of ordinary shares adjusted for any bonus share issues on the conversion date of each tranche. The fair values of the Tranches, estimated as of the grant date, were US\$ 1.39, US\$ 0.63 and US\$ 0.435 per share respectively. The difference between issue price and fair value is amortised over the vesting period and included under "staff costs" in the consolidated statement of income.

- (g) On 1 January 2011, the 55.7 million Class B non-cumulative fully convertible preference shares were converted, including the effect of prior year ordinary bonus share issues, to 76.5 million ordinary shares. These ordinary shares will rank paripassu with the other ordinary shares in issue (refer (f) above). Consequent to the above conversion, the total number of ordinary shares in issue as on 1 January 2011 is 4,984.3 million.

21 RESERVES

a) Share premium

The share premium arising on the issue of ordinary and preference shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

b) Capital reserve

As required by the Bahrain Commercial Companies Law, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

c) Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

d) Property revaluation reserve

The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

e) Foreign exchange translation reserve

It comprises of translation effects arising on consolidation of subsidiaries, non-monetary equity investments and investments in associates.

f) Available-for-sale reserve

This reserve represents changes in the fair values of available-for-sale investments.

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21 RESERVES (continued)**g) Cash flow hedge reserve**

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

h) Employee share purchase plan reserve

The Group operates an employees' share purchase plan (ESPP) for certain eligible employees through the issuance of Non-Cumulative Fully Convertible Class B Preference Shares. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated statement of income with a corresponding effect to ESPP reserve under consolidated statement of changes in equity. Upon conversion of these shares, the fair value reserve is transferred to share premium.

i) Movements in other reserves

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
				<i>Available- for-sale reserve</i>	<i>Cash flow hedge reserve</i>	<i>ESPP reserve</i>	
	<i>US\$</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance at 1 January 2010	307	73,384	11,628	(90,887)	(29,825)	2,397	(32,996)
Currency translation adjustments	-	-	(16,034)	-	-	-	(16,034)
Share of changes in fair value reserve of associates	-	-	-	1,335	-	-	1,335
Transfers to consolidated statement of income	-	-	-	956	2,455	-	3,411
Net fair value movements during the year	-	-	-	12,528	(6,303)	-	6,225
Fair value amortisation of share based transactions (note 23)	-	-	-	-	-	1,689	1,689
Sale of treasury shares	118	-	-	-	-	-	118
Conversion of preference shares (note 20(f))	-	-	-	-	-	(2,397)	(2,397)
Revaluation of freehold land	-	(19,542)	-	-	-	-	(19,542)
Balance at 31 December 2010	425	53,842	(4,406)	(76,068)	(33,673)	1,689	(58,191)

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21 RESERVES (continued)**i) Movement in other reserves (continued)**

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
				<i>Available- for-sale reserve</i>	<i>Cash flow hedge reserve</i>	<i>ESPP reserve</i>	
				<i>US\$</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Balance at 1 January 2009	307	121,106	38,419	(251,621)	(85,652)	6,328	(171,113)
Currency translation adjustments	-	-	(26,791)	-	-	-	(26,791)
Share of changes in fair value reserve of associates	-	-	-	(1,236)	-	-	(1,236)
Transfers to consolidated statement of income on sale/ impairment of available-for-sale investments	-	-	-	21,785	-	-	21,785
Transfers to consolidated statement of income	-	-	-	-	38,661	-	38,661
Net fair value movements during the year	-	-	-	140,185	17,166	-	157,351
Fair value amortisation of share based transactions (note 23)	-	-	-	-	-	1,108	1,108
Conversion of preference shares (note 20(f))	-	-	-	-	-	(5,039)	(5,039)
Revaluation of freehold land	-	(47,722)	-	-	-	-	(47,722)
Balance at 31 December 2009	307	73,384	11,628	(90,887)	(29,825)	2,397	(32,996)

j) Dividends paid and proposed

	<u>2010</u> <i>US\$'000</i>
Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting	
Cash dividend on the Class B Preference shares @ 12 month LIBOR plus 1.5% margin as per terms	149
Cash dividend on the Ordinary shares @ US cents 2.5 per share	122,697
Bonus share issue	None
	<u>2009</u> <i>US\$'000</i>
Declared and paid during the year	
Cash dividend on the Class B Preference shares @ US cents 2.9 per share (2009: US cents 4.7 per share)	1,129
Cash dividend on the Ordinary shares @ US cents 2.0 per share (2009: US cents 2.5 per share)	97,043
Bonus share issue	None

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22 TAXATION

	<u>2010</u>	<u>2009</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Consolidated balance sheet (note 14):		
- Current tax asset	3,147	5,810
- Deferred tax liability	(2,816)	(1,205)
	331	4,605
Consolidated statement of income		
- Current tax expense on foreign operations	15,163	5,444
- Deferred tax expense on foreign operations	1,611	1,312
	16,774	6,756

The Group's tax expense includes all direct taxes that are accrued and paid on taxable profits of entities to the authorities in the respective country of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBUK, AUBE, AUBK and CBIQ.

23 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less Class B preference share dividends, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to the Bank's ordinary equity shareholders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of Class B preference shares into ordinary shares.

The convertible subordinated debt issued (note 19(a)) is anti-dilutive for 2010 and 2009 and therefore ignored in calculating diluted earnings per share. The number of ordinary shares potentially issuable upon conversion of this debt amounts to 161.3 million shares as at 31 December 2010 (2009: 161.3 million).

The following reflects the income and share data used in basic and diluted earnings per share computations :

	<u>2010</u>	<u>2009</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Net profit for basic earnings per share computation		
Net profit attributable to Bank's equity shareholders	265,499	200,718
(Less): Class B preference share dividend (note 21(j))	(149)	(1,129)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic earnings per share	265,350	199,589
Net profit for diluted earnings per share computation		
Net profit attributable to Bank's equity shareholders before preference share dividend	265,499	200,718
Add: Staff costs - fair value amortisation of share based transactions (note 21 (i))	1,689	1,108
Adjusted net profit attributable to Bank's ordinary equity shareholders for diluted earnings per share	267,188	201,826

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23 EARNINGS PER SHARE (continued)

	<i>Number of shares (in millions)</i>	
	<u>2010</u>	<u>2009</u>
Weighted average ordinary shares outstanding during the period adjusted for bonus shares	4,887	4,781
Less :- Weighted average treasury shares	(1)	(2)
Net weighted average number of ordinary shares for basic earnings per share	4,886	4,779
Add: Effect of dilution – Class B preference shares (note 20(e))	77	40
Weighted average number of ordinary shares for diluted earnings per share	4,963	4,819

24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks, excluding mandatory reserve deposits (note 9)	183,137	86,708
Deposits with banks and other financial institutions - with an original maturity of three months or less	2,780,021	2,092,768
	2,963,158	2,179,476

25 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	<u>2010</u>			
	<i>US\$ '000</i>			
	<i>Major shareholders</i>	<i>Associates</i>	<i>Directors and senior management</i>	<i>Total</i>
Interest income	-	773	3,010	3,783
Interest expense	84,389	375	3	84,767
Fees and commissions (net)	-	4,075	-	4,075
Deposits with banks and other financial institutions	25	78,409	-	78,434
Loans and advances	-	-	214,409	214,409
Deposits from banks and other financial institutions	-	28,444	-	28,444
Customers' deposits ^(a)	4,734,309	17,206	14,816	4,766,331
Subordinated liabilities	91,596	-	-	91,596
Commitments and contingent liabilities (notional)	-	5,456	2,779	8,235
Derivatives (notional)	-	158,028	-	158,028

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25 RELATED PARTY TRANSACTIONS (continued)

	2009			
	US\$ '000			
	<i>Major shareholders</i>	<i>Associates</i>	<i>Directors and senior management</i>	<i>Total</i>
Interest income	-	809	4,731	5,540
Interest expense	124,875	28	58	124,961
Fees and commissions (net)	-	3,103	-	3,103
Deposits with banks and other financial institutions	24	162,859	-	162,883
Loans and advances	-	-	196,597	196,597
Deposits from banks and other financial institutions	-	28,499	-	28,499
Customers' deposits ^(a)	4,097,106	21,341	15,555	4,134,002
Subordinated liabilities	92,705	-	-	92,705
Commitments and contingent liabilities (notional)	-	5,000	12,034	17,034
Derivatives (notional)	-	165,941	-	165,941

(a) Customers' deposits include deposits from GCC government-owned institutions totaling to US\$ 4,710 million (31 December 2009: US\$ 4,091 million).

The compensation of key management personnel of the Group included under staff costs was as follows:

	2010	2009
	US\$ '000	US\$ '000
Short term employee benefits	14,240	14,078
End of service benefits	947	831
Post employment benefits	261	358
Total benefits	15,448	15,267

Included in short term employee benefits is the fair value amortisation charge relating to share based transactions of US\$ 0.6 million (2009: US\$ 0.3 million).

26 EMPLOYEE BENEFITS

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

Defined benefit plans

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US\$ 8,486 thousand (2009: US\$ 7,095 thousand). There are no material differences between the carrying amount of the provision for end of service benefits at both 31 December 2010 and 2009 and the amount arising from an actuarial computation thereof.

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. The charge to consolidated statement of income is calculated in accordance with IAS 19 corridor method, which is the deficit of the actuarial value of assets over the actuarial value of liabilities, outside of the defined corridor, over the average remaining service lives of the scheme.

Defined contribution plans

The Group contributed US\$ 5,481 thousand (2009: US\$ 6,898 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

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27 MANAGED FUNDS

Funds administrated on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2010 was US\$ 4,422 million (2009: US\$ 4,190 million).

28 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the term of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The table below shows the net fair values of derivative financial instruments together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	2010			2009		
	<i>Notional amount</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notional amount</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held for trading:</i>						
Interest rate swaps	1,432,793	46,294	44,661	1,634,354	44,967	44,957
Forward foreign exchange contracts	5,372,623	72,999	62,971	5,070,261	106,652	99,003
Forward rate agreements	1,300,000	1,277	205	1,250,000	3,922	254
Options	1,705,243	1,802	998	226,721	52	170
Interest rate futures	3,136,375	432	370	1,500,000	216	216
Credit derivatives	125,000	50	863	135,000	55	2,524
<i>Derivatives held as fair value hedges:</i>						
Interest rate swaps	2,079,385	12,219	97,645	2,186,812	25,346	61,154
Currency swaps	150,000	6,420	-	165,871	2,379	3,417
Options	50,535	4,558	-	142,014	5,973	-
<i>Derivatives held as cash flow hedges:</i>						
Interest rate swaps	2,110,601	2,196	35,869	654,084	1,767	31,592
	17,462,555	148,247	243,582	12,965,117	191,329	243,287

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28 DERIVATIVES (continued)**Cash flow hedges**

The schedule of forecast principal balances on which the expected interest cash flows arise and their impact on the consolidated financial statements as at 31 December 2010 and 2009 is as follows:

	<i>3 months or less</i>	<i>More than 3 months upto 1 year</i>	<i>More than 1 year upto 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 31 December 2010					
Cash outflows from liabilities	21,725	11,174	59,803	9,483	102,185
At 31 December 2009					
Cash outflows from liabilities	11,129	1,367	57,311	34,387	104,194

No hedge ineffectiveness on cash flow hedges was recognised in 2010 and 2009.

Fair value hedges

(Losses) gains arising from fair value hedge instruments during 2010 were (US\$ 51,489) thousand (2009 : US\$ 95,304 thousand) while the gains (losses) on the hedged items attributable to risk were US\$ 51,489 thousand (2009 : US\$ (95,304) thousand). These gains and losses are included in "trading income-net" in the consolidated statement of income during 2010 and 2009.

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

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

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

28 DERIVATIVES (continued)

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

29 COMMITMENTS AND CONTINGENT LIABILITIES**Credit-related commitments**

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

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

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Commitments on behalf of customers:		
Guarantees	1,448,486	1,395,462
Acceptances	70,196	45,394
Letters of credit	372,315	248,337
	<u>1,890,997</u>	<u>1,689,193</u>
Irrevocable commitments:		
Undrawn loan commitments	<u>1,054,589</u>	<u>892,493</u>

The Group's commitments in respect of non-cancellable operating leases were as follows:

	<u>2010</u>	<u>2009</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Within one year	1,877	2,017
Between one to five years	7,363	7,652
Over five years	11,001	13,066
	<u>20,241</u>	<u>22,735</u>

30 SEGMENT INFORMATION

For management purposes the Group is organised into three major business segments:

Retail banking	principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking, treasury and investments	principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Group's funding.
Private banking and wealth management	principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

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30 SEGMENT INFORMATION (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

Segmental information for the period was as follows:

	<i>Retail banking</i>	<i>Corporate banking, treasury and investments</i>	<i>Private banking and wealth management</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2010:				
Net interest income	107,855	365,958	34,961	508,774
Intersegment interest	14,209	(11,301)	(2,908)	-
Fees and commissions - net	33,403	67,882	22,034	123,319
Other operating income	3,778	78,159	29	81,966
OPERATING INCOME	159,245	500,698	54,116	714,059
Provision for loan losses and contingencies - net	14,331	132,946	4,394	151,671
NET OPERATING INCOME	144,914	367,752	49,722	562,388
Operating expenses	95,972	130,067	27,376	253,415
PROFIT BEFORE TAX	48,942	237,685	22,346	308,973
Tax expense	4,231	9,837	2,706	16,774
NET PROFIT FOR THE YEAR	44,711	227,848	19,640	292,199
Less : Attributable to non-controlling interests				26,700
NET PROFIT ATTRIBUTABLE TO THE BANK'S EQUITY SHAREHOLDERS				265,499
Segment assets	2,793,495	20,467,566	1,060,300	24,321,361
Goodwill and other intangible assets (note 15)	247,644	322,221	146,493	716,358
Investment in associates and joint venture				605,679
Unallocated assets				814,063
TOTAL ASSETS				26,457,461
Segment liabilities	3,176,812	17,602,918	2,231,867	23,011,597
Unallocated liabilities				693,689
TOTAL LIABILITIES				23,705,286

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30 SEGMENT INFORMATION (continued)

	<i>Retail banking</i>	<i>Corporate banking, treasury and investments</i>	<i>Private banking and wealth management</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2009:				
Net interest income	142,088	292,972	31,525	466,585
Intersegment interest	(5,352)	10,716	(5,364)	-
Fees and commissions - net	50,138	64,381	24,011	138,530
Other operating income	4,044	86,902	325	91,271
OPERATING INCOME	190,918	454,971	50,497	696,386
Provision for loan losses and contingencies - net	36,784	191,261	91	228,136
NET OPERATING INCOME	154,134	263,710	50,406	468,250
Operating expenses	104,296	105,768	25,344	235,408
PROFIT BEFORE TAX	49,838	157,942	25,062	232,842
Tax expense	1,861	3,107	1,788	6,756
NET PROFIT FOR THE YEAR	47,977	154,835	23,274	226,086
Less : Attributable to non-controlling interests				25,368
NET PROFIT ATTRIBUTABLE TO THE BANK'S EQUITY SHAREHOLDERS				200,718
Segment assets	3,076,821	17,285,982	1,418,954	21,781,757
Goodwill and other intangible assets (note 15)	217,194	276,101	130,991	624,286
Investment in associates and joint venture				537,099
Unallocated assets				630,841
TOTAL ASSETS				23,573,983
Segment liabilities	2,901,758	15,684,112	1,813,731	20,399,601
Unallocated liabilities				592,951
TOTAL LIABILITIES				20,992,552

Geographic segmentation

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the GCC are grouped together, while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Rest of the World". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segment:

	<i>GCC</i>		<i>Rest of the World</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Operating income	559,219	574,571	154,840	121,815	714,059	696,386
Total assets	18,837,923	16,700,194	7,619,538	6,873,789	26,457,461	23,573,983

RISK MANAGEMENT

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

a) Concentration risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to any sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – mortgages over residential properties and assignments over salary income;
- In the commercial sector – charges over business assets such as premises, inventories, receivables and corporate or bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 10(a) and 10(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 32.

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31 CREDIT RISK (continued)**b) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for impairment where applicable.

	<i>Gross maximum exposure 2010 US\$ '000</i>	<i>Gross maximum exposure 2009 US\$ '000</i>
Balances with central banks	280,389	289,533
Treasury bills and bonds	301,127	969,114
Deposits with banks and other financial institutions	4,767,843	3,100,446
Loans and advances	14,477,713	13,299,999
Non-trading investments	4,047,110	3,481,447
Other assets	410,670	415,225
Total	24,284,852	21,555,764
Contingent liabilities	1,890,997	1,689,193
Undrawn loan commitments	1,054,589	892,493
Total credit related commitments	2,945,586	2,581,686
Total credit risk exposure	27,230,438	24,137,450

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

c) Credit quality per class of financial assets

The table below shows distribution of financial assets neither past due nor impaired.

	<i>Neither past due nor impaired</i>		<i>Total US\$ '000</i>
	<i>High standard grade US\$ '000</i>	<i>Standard grade US\$ '000</i>	
At 31 December 2010			
Balances with central banks	259,406	20,983	280,389
Treasury bills and bonds	301,127	-	301,127
Deposits with banks and other financial institutions	4,368,961	398,882	4,767,843
Loans and advances			
Retail	750,335	2,024,543	2,774,878
Corporate	7,137,208	4,391,025	11,528,233
Non trading investments			
Available-for-sale	2,303,491	183,922	2,487,413
Held to maturity	-	21,220	21,220
Loans and receivables	1,394,785	143,692	1,538,477
Other assets - derivatives	148,247	-	148,247

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31 CREDIT RISK (continued)**c) Credit quality per class of financial assets (continued)**

The table below shows distribution of financial assets neither past due nor impaired.

	<i>Neither past due nor impaired</i>		
	<i>High</i>	<i>Standard</i>	<i>Total</i>
	<i>standard</i>	<i>grade</i>	
	<i>grade</i>	<i>grade</i>	<i>US\$ '000</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 31 December 2009			
Balances with central banks	289,533	-	289,533
Treasury bills and bonds	863,210	105,904	969,114
Deposits with banks and other financial institutions	3,018,249	82,197	3,100,446
Loans and advances			
Retail	654,746	2,338,258	2,993,004
Corporate	6,401,794	3,602,247	10,004,041
Non trading investments			
Available-for-sale	1,646,099	157,123	1,803,222
Held to maturity	-	15,927	15,927
Loans and receivables	1,554,874	133,660	1,688,534
Other assets - derivatives	191,329	-	191,329

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed above can be equated to the following risk rating grades:

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk

The risk rating system is supported by a various financial analytics and qualitative market information for the measurement of counterparty risk.

There are no financial assets which are past due but not impaired as at 31 December 2010 and 2009 other than those disclosed under note 10(c).

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32 CONCENTRATION ANALYSIS

The distribution of assets, liabilities and commitments on behalf of customers by geographic region and industry sector was as follows:

	2010			2009		
	<i>Assets</i>	<i>Liabilities</i>	<i>Commitments on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Commitments on behalf of customers</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Geographic region:						
GCC countries	18,837,923	17,814,006	1,564,830	16,700,194	14,703,507	1,423,469
United Kingdom (UK)	1,795,535	468,540	2,120	1,404,250	797,392	5,690
Europe (excluding UK)	1,502,777	1,023,124	80,476	1,815,378	587,931	32,488
United States of America	787,733	251,977	17,330	795,051	224,055	18,619
Asia (excluding GCC)	832,533	2,133,461	17,526	576,650	2,317,334	12,845
Rest of the world (including Arab Republic of Egypt)	2,700,960	2,014,178	208,715	2,282,460	2,362,333	196,082
	26,457,461	23,705,286	1,890,997	23,573,983	20,992,552	1,689,193
Industry sector:						
Banks and other financial institutions	10,014,756	10,270,624	422,891	8,212,699	7,809,843	471,520
Consumer/Personal	3,343,687	3,603,717	33,572	3,301,674	3,100,701	24,894
Trading, manufacturing and services	4,087,068	1,487,980	585,455	3,917,353	974,854	518,325
Real estate/construction	5,053,331	433,685	293,165	4,503,192	375,195	181,345
Government/public sector	1,263,028	3,572,867	7,877	1,166,639	4,557,428	-
Others	2,695,591	4,336,413	548,037	2,472,426	4,174,531	493,109
	26,457,461	23,705,286	1,890,997	23,573,983	20,992,552	1,689,193

33 MARKET RISK

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

33 MARKET RISK (continued)

a. Market risk-trading

The Group calculates Historical Simulation VaR using a one day holding period at a confidence level of 95%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
2010 - 31 December	(549)	7	(6)	(548)
2009 - 31 December	(30)	506	1	477

b. Market risk-non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed on a weekly basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

The following table demonstrates the sensitivity of the Group's net interest income to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2010 including the effect of hedging instruments. Equity is not sensitive to changes in interest rates as there are no fixed rate instruments held in the available-for-sale portfolio.

Sensitivity analysis - interest rate risk

		<i>2010</i>	<i>2009</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
at 10 bps - increase (+)/decrease (-)	+/-	1,021	958
at 25 bps - increase (+)/decrease (-)	+/-	2,552	2,396

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33 MARKET RISK (continued)**b. Market risk-non-trading (continued)****Currency risk**

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

Sensitivity analysis - currency risk

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 33 (a).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported under the "foreign exchange translation reserve" under the note 21(i).

Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Investment Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity valuations (as a result of a change in the fair value of equity investments held as available-for-sale) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

		<u>2010</u>	<u>2009</u>
	<i>Change in equity indices %</i>	<i>Effect on equity US\$ '000</i>	<i>Effect on equity US\$ '000</i>
Market indices			
Doha Securities Market	+10%	-	606
Kuwait Stock Exchange	+10%	2,475	1,616

Sensitivity to equity price movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

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34 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments, with the exception of unquoted equity investments that are carried at cost and held to maturity investments, approximate their carrying values.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The fair value of unquoted equity investments cannot be determined with sufficient accuracy, as future cash flows are not determinable. The Group has unquoted equity investments carried at cost amounting to US\$ 136.3 million (2009: US\$ 123.8 million) where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted; or when a material third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

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

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

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

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

	2010			2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
				US\$ '000	US\$ '000	US\$ '000
Trading securities	130	-	130	376	-	376
Bonds	2,185,704	301,709	2,487,413	1,505,648	297,574	1,803,222
Equities and funds	155,335	197,987	353,322	175,340	178,580	353,920
Derivative assets	79,851	68,396	148,247	107,063	84,266	191,329
Derivative liabilities	(63,342)	(180,240)	(243,582)	(98,247)	(145,040)	(243,287)
	2,357,678	387,852	2,745,530	1,690,180	415,380	2,105,560

There are no financial instruments that qualify for classification under Level 3 as at 31 December 2010 and 2009. During the year 2010 there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments refer to note 3.3 (f).

Investments in associates include quoted equity investments of Ahli Bank Q.S.C. on the Doha Securities Market, and Ahli Bank S.A.O.G. on the Muscat Securities Market. The table below shows the market value based on closing price as at 31 December 2010 and carrying value of these investments :

	2010	2009
	US\$ (million)	US\$ (million)
Market value	591	433
Carrying value	499	483

Impairment testing of the Group's investments in associates was carried out as required under IAS 28 and IAS 36 and the results indicated no impairment.

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35 LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its funding requirements in an orderly and cost efficient manner. Market disruptions or a credit downgrade, for example, may reduce the availability of certain sources of funding. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

The Group Asset and Liability Committee (GALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Group's treasury department. The Group's standards for the governance of liquidity risk are documented in the Group Liquidity Policy and Group Liquidity Contingency Plan.

The maturity profile of the assets and liabilities at **31 December 2010** given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

	<i>US\$ '000</i>			
	<i>Less than</i>	<i>Above</i>	<i>Undated</i>	<i>Total</i>
	<i>1 year</i>	<i>1 year</i>		
ASSETS				
Cash and balances with central banks	361,376	-	-	361,376
Treasury bills and bonds	301,127	-	-	301,127
Trading securities	130	-	-	130
Deposits with banks and other financial institutions	4,766,355	1,488	-	4,767,843
Loans and advances	5,223,277	9,254,436	-	14,477,713
Non-trading investments	849,819	3,563,353	-	4,413,172
Investments in associates and joint venture	-	-	605,679	605,679
Premises and equipment	-	-	373,094	373,094
Other assets	359,347	81,622	-	440,969
Goodwill and other intangible assets	-	-	716,358	716,358
Total	11,861,431	12,900,899	1,695,131	26,457,461
LIABILITIES				
Deposits from banks and other financial institutions	6,370,790	239,494	-	6,610,284
Customers' deposits	7,349,573	7,486,223	-	14,835,796
Term debts	178,562	768,000	-	946,562
Other liabilities	631,565	62,124	-	693,689
Subordinated liabilities	3,110	615,845	-	618,955
Total	14,533,600	9,171,686	-	23,705,286
Net liquidity gap	(2,672,169)	3,729,213	1,695,131	2,752,175

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35 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2009 was as follows:

	<i>US\$' 000</i>			
	<i>Less than 1 year</i>	<i>Above 1 year</i>	<i>Undated</i>	<i>Total</i>
ASSETS				
Cash and balances with central banks	304,164	-	-	304,164
Treasury bills and bonds	831,394	137,720	-	969,114
Trading securities	376	-	-	376
Deposits with banks and other financial institutions	3,100,446	-	-	3,100,446
Loans and advances	5,358,096	7,941,903	-	13,299,999
Non-trading investments	590,542	3,308,050	-	3,898,592
Investments in associates and joint venture	-	-	537,099	537,099
Premises and equipment	-	-	355,956	355,956
Other assets	389,906	94,045	-	483,951
Goodwill and other intangible assets	-	-	624,286	624,286
Total	10,574,924	11,481,718	1,517,341	23,573,983
LIABILITIES				
Deposits from banks and other financial institutions	5,473,485	76,033	-	5,549,518
Customers' deposits	6,107,355	7,133,911	-	13,241,266
Term debts	-	950,054	-	950,054
Other liabilities	582,972	66,526	-	649,498
Subordinated liabilities	-	602,216	-	602,216
Total	12,163,812	8,828,740	-	20,992,552
Net liquidity gap	(1,588,888)	2,652,978	1,517,341	2,581,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 LIQUIDITY RISK (continued)**Analysis of financial liabilities by remaining contractual maturities**

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

	<i>US\$ '000</i>		
	<i>Less than 1 year</i>	<i>Above 1 year</i>	<i>Total</i>
As at 31 December 2010			
Deposits from banks and other financial institutions	6,299,535	327,852	6,627,387
Customers' deposits	14,534,105	406,739	14,940,844
Term debts	801,571	154,716	956,287
Subordinated liabilities	3,149	666,885	670,034
Total	21,638,360	1,556,192	23,194,552
Credit related commitments and contingencies	1,884,364	1,061,222	2,945,586
Derivatives - net outflow	4,440	113,026	117,466
	<i>US\$ '000</i>		
	<i>Less than 1 year</i>	<i>Above 1 year</i>	<i>Total</i>
As at 31 December 2009			
Deposits from banks and other financial institutions	5,496,432	80,995	5,577,427
Customers' deposits	12,952,964	366,134	13,319,098
Term debts	2,100	1,018,358	1,020,458
Subordinated liabilities	26,330	701,552	727,882
Total	18,477,826	2,167,039	20,644,865
Credit related commitments and contingencies	1,768,989	812,697	2,581,686
Derivatives - net outflow	(2,408)	(50,102)	(52,510)

31 December 2010

36 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel II, approved by the Central Bank of Bahrain, for the Group, is disclosed under Pillar III Table 1, which is included in the annual report. The risk asset ratio is 14.1% as of 31 December 2010 (2009: 15.1%)

37 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB) and the Financial Services Compensation Scheme, UK. The schemes apply to all non-bank private sector deposits subject to specific exclusions mainly relating to maximum deposit amounts, maximum total amount covered in one calendar year and maximum total amount of the Deposit Protection Board's financial resources. Eligible depositors are covered by the CBB to the extent of the lower of 75% of the combined total of eligible deposits held by the depositor and BD 15,000. In the case of AUBUK, the entire amount of the customer deposit is covered under the Financial Services Compensation Scheme, subject to a maximum limit of GBP 50,000 per customer. No up-front contribution is currently required under the schemes and no liability is due unless any member bank of the Deposit Protection Scheme is unable to meet its depository obligations.

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38 ISLAMIC BANKING

The balance sheet and statement of income of the Group's Sharia compliant Islamic activities which are incorporated into the consolidated balance sheet and consolidated statement of income, are presented below:

Balance sheet as at 31 December

		<u>2010</u>	<u>2009</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
ASSETS			
Cash in hand		38,118	2,828
Due from banks and other financial institutions	a	3,569,767	291,696
Receivable balances from Islamic financing activities	b	7,441,805	774,808
Property, furniture and equipment		140,302	1,166
Other assets		90,671	4,407
TOTAL ASSETS		11,280,663	1,074,905
LIABILITIES			
Due to banks	c	5,449,568	791,590
Customers' deposits	d	4,580,079	164,728
Other liabilities		161,496	18,099
Restricted investment accounts		24,898	13,992
		10,216,041	988,409
Unrestricted investment accounts (URIA)		484,979	59,867
TOTAL LIABILITIES AND URIA		10,701,020	1,048,276
CAPITAL AND RESERVES			
		447,118	26,629
Non-controlling interests		132,525	-
TOTAL EQUITY		579,643	26,629
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		11,280,663	1,074,905

Ahli United Bank B.S.C.

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38 ISLAMIC BANKING (continued)

Statement of income for the year ended 31 December

	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from Islamic financing activities	176,485	12,410
	<u>176,485</u>	<u>12,410</u>
Fees and commissions - net	18,487	1,389
Foreign exchange gains	8,451	-
OPERATING INCOME	<u>203,423</u>	<u>13,799</u>
Provision for impairment	8,709	-
NET OPERATING INCOME	<u>194,714</u>	<u>13,799</u>
Staff costs	34,588	949
Depreciation	6,181	241
Other operating expenses	19,796	730
OPERATING EXPENSES	<u>60,565</u>	<u>1,920</u>
PROFIT FOR THE YEAR BEFORE THE SHARE OF PROFIT OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	<u>134,149</u>	<u>11,879</u>
Less : Share of profit of unrestricted investment account holders	(2,470)	(538)
NET PROFIT FOR THE YEAR	<u>131,679</u>	<u>11,341</u>
<i>Attributable to:</i>		
Bank's equity shareholders	104,373	11,341
Non-controlling interests	27,306	-
	<u>131,679</u>	<u>11,341</u>

Notes

	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(a) Due from banks and other financial institutions		
Murabaha finance with Central Bank of Kuwait	1,491,523	-
Murabaha finance with other banks and financial institutions	1,686,110	291,696
Wakala with banks and financial institutions	191,793	-
Deposits with banks	92,315	-
Current account and others	108,026	-
	<u>3,569,767</u>	<u>291,696</u>
(b) Receivable balances from Islamic financing		
Tawarruq receivables	5,696,485	130
Murabaha receivables	1,442,746	510,373
Ijara receivables	460,753	264,305
Others	3,450	-
Less: Allowance for impairment	(161,629)	-
	<u>7,441,805</u>	<u>774,808</u>

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38 ISLAMIC BANKING (continued)*Notes (continued)*

	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(c) Due to banks		
Murabaha	4,007,323	791,590
Wakala	1,345,529	-
Deposits from banks	36,562	-
Current accounts	51,450	-
Mudaraba	8,704	-
	<u>5,449,568</u>	<u>791,590</u>
	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(d) Deposit from customers		
Wakala	2,541,790	-
Mudaraba	503,231	-
Current account	553,683	-
Murabaha	981,375	164,728
	<u>4,580,079</u>	<u>164,728</u>
	<u>2010</u>	<u>2009</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(e) Net income from Islamic financing activities		
Income from Murabaha	10,884	10,078
Income from Ijara	14,937	5,665
Income from Tawarruq	255,155	6
Income from Islamic financing activities	<u>280,976</u>	<u>15,749</u>
Profit expenses on Wakala	71,990	-
Profit expenses on Mudaraba	6,632	-
Profit expenses on Murabaha	25,869	3,339
Less: Distribution to depositors	<u>104,491</u>	<u>3,339</u>
Net income from Islamic financing activities	<u>176,485</u>	<u>12,410</u>