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## Financial and Annual Highlights

The Bank was launched in January 2009 with paid up capital of USD 125 million. The financial performance depicted below is related to the period from January 2009 to December 2009 in USD '000.

Operating Income	3,000
Operating Expenses	7,465
Net Loss	(4,465)
Total Assets	118,235
Total Equity	118,022

## The Board of Director's report to Shareholders

In the name of Allah, the Beneficent, the Merciful, prayers and peace be upon the last apostle and messenger, our prophet, Mohammed.

On behalf of the Board of Directors, I am pleased to present to you the financial statements of Capinnova Investment Bank for the period ending 31 December 2009.



### Principal activity of the Bank

The bank started its operations during January 2009. The principal activities of the Bank are investment banking services with three main lines of business being Asset Management, Corporate Finance and Private Equity in conformity with Islamic Shari'a.

### Results for the year

During the year ended 31 December 2009, the Bank generated a total operating Income of US\$2,999,565 (2008: US\$ 383,288) and a net loss of US\$ 4,465,407 (2008: US\$ 3,085,015). Total operating expenses for the year amounted to US\$ 7,464,972 (2008: US\$ 3,468,303). Total assets at 31 December 2009 stood at US\$ 118,235,189 (2008: US\$ 10,673,976). During the year total payment to Directors for Board, Audit Committee & Executive committee sitting fees was US\$ 123,242.

### Auditors

Ernst and Young Bahrain were re-appointed as auditors of the Bank for the year 2010.

### Acknowledgments

On behalf of the Board of Directors, I would like to thank the Central Bank of Bahrain and other agencies of the Kingdom of Bahrain for their support. I would also like to thank our shareholders for their continued confidence and support to Bank's management and staff for their contribution.

A handwritten signature in black ink, appearing to read 'Abdul Karim Bucheery'. The signature is stylized and written in a cursive script.

**Abdul Karim Bucheery**

Chairman of the Board

## Corporate Governance – Board of Directors

The role of the Board of Directors is to provide effective governance of the Bank's affairs and to promote and achieve sustainable performance which has long-term growth potential. The Board also has the duty of balancing the interests of all its stakeholders while maintaining high standards of transparency and accountability.

In all decisions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank's best interest. In discharging this obligation, they may rely on the honesty and professional integrity of the Bank's Executive Management and Senior Executives, as well as its external advisors and auditors.

Members of the Board of Directors are:

**Abdul Karim Ahmed Abdul Rahman Bucheery, Chairman of the Board of Directors (Executive Director)**



Mr. A. Karim Bucheery's experience spans over three decades of extensive and diverse experience in the Banking Sector. He has particular strength in Credit and Country risks, Correspondent Banking Corporate and International Banking and Product Knowledge which includes Islamic Banking. Mr. Bucheery is currently the Chief Executive for BBK. In addition to other directorships, he serves as the Chairman of the Board of CrediMax, and Vice Chairman of the Board of Bahrain Credit Facilities Co. He recently received the World Finance Award for Banker of the Year 2009 at the London Stock Exchange.

Mr. Bucheery was awarded a B.Sc. Degree in Economic Science in 1976 from Aleppo University, Syria.

**Mr. Reyadh Yousif Sater, Deputy Chairman of the Board of Directors, (Executive Director)**



Mr. Reyadh Yousif Sater started with BBK in 1978 and worked in many support areas of the Bank and was instrumental in establishing Bank's Cards and Loan Operations Units. He also headed the Internal Audit Department of the Bank during the recent past. He is currently the General Manager of the Shared Services Group at BBK. Mr. Sater is a Deputy Chairman of the Board of Directors in CrediMax, Board Member in Benefit, and the Chairman of the Audit Committee and Board Member in Sakana.

Mr. Sater holds an MBA from the University of Glamorgan (UK), an Executive Management Diploma from the University of Bahrain and a Banking Diploma from the Bahrain Institute of Banking and Finance. He is a member of the US Institute of Internal Auditors and the Canadian Chartered Association of Business Administrators.

**Shaikh Rashed Salman Al-Khalifa, Member of the Board of Directors, (Executive Director)**



Shaikh Rashid has sound Banking career developed through intensive training in Financial Analysis, Credit Administration and Marketing. He has extensive knowledge of the Gulf's financial markets, having worked in the financial industry for more than 25 years where he held several senior positions. He is currently the General Manager of the Business Group at BBK.

Previously he worked with Arab Banking Corporation where he held the position of Senior Vice President, Head of Corporate Banking and Financial Institutions. Prior to joining Arab Banking Corporation, he was the First Vice President and Head of Government and Financial for Arab World.

Shaikh Rashid has a Bachelor of Science in Chemical Engineering from the University of Leeds and a Master in Business Administration from Arizona State University.

**Dr. Abdul-Rahman Ali Saif, Member of the Board of Directors, (Executive Director)**



Dr. Abdul-Rahman Ali Saif brings an extensive experience in Investment Banking which spans over two and half decades with a solid foundation in Economics. He is currently the Assistant General Manager of the Treasury and Investment Division at BBK. He is a member of the Supreme Council for Higher Education. Previously to joining BBK, he worked with the Central Bank of Bahrain.

Dr. Saif received his Postgraduate degree from the University of Lancaster and completed his Ph. D in Economics at the University of Leicester in the United Kingdom.

**Najah Hassan Al-Aali, Member of the Board of Directors, (Independent non-executive Director)**



Ms. Al-Aali worked with Gulf International Bank for 23 years, where she held several managerial positions and contributed in many committees within the Bank. When she left the Bank in 2004, she held the Senior Vice President position – Head of International Banking. After an extensive career with Gulf International Bank, she moved on to Global Investment House Bahrain as General Manager for the firm and served until August 2007.

Ms. Al-Aali is currently a Board Member in Bahrain Airport Company and Al-Aali Investment Company. Previously was a Board Member in First Bahrain Real Estate Company, Adhari Park Company and College of Business Administration (University of Bahrain). She graduated from Brighton University, United Kingdom with Higher National Diploma in Business Studies.

**Dr. Ahmed A. Hameed A. Ghani Al Shaikh, Member of the Board of Directors, (Independent non-executive Director)**



Dr. Ahmed Al Shaikh is the Vice President of the Enterprise and Human Capital Development Division at Tamkeen (Labour Fund). He is responsible for executing the human resources development and private sector support initiatives which constitute a major element of the labour market reform project and Tamkeen's mandate.

Dr. Al Shaikh spent more than 14 years in higher education holding various positions in the College of Business Administration at the University of Bahrain.

He played a major role in executing several strategies in that duration in the capacity of Chairman of the Economics and Financial Department and the Director of Continuing Management Education Programme. Dr Al Shaikh also lectured at both the University of Maryland and the Bahrain Institute of Banking & Finance. At the University of Bahrain, he established the evening programme of the College of Business Administration and also the Bachelors of Science Programme in Banking and Finance.

Dr. Ahmed Al Shaikh is a Board Member of College of Health Sciences and Bahrain Institute of Banking and Finance Institute Advisory Group

Dr Ahmed Al Shaikh holds a Ph.D. in Economics, MA. in Economic Development from Leicester University, United Kingdom. He also holds a Post Graduate Degree from the University of East Anglia, a BSc in Business Administration from the University of Bahrain and a Higher National Diploma in Business Administration from the Gulf Polytechnic.

## Board **Sub-Committees**

Capinnova has two Board Sub-Committees – the Executive Committee and the Audit Committee, each with specific delegated responsibilities.

### **Executive Committee**

The purpose of the Executive Committee is to assist the Board of Directors in maintaining oversight responsibility for activities and decisions related to Finance and Investment, and to Risk Management.

#### Finance and Investment

Oversight responsibilities relating to financing include the raising of Shari'a compliant leveraging of the bank's balance sheet as well as equity capital for the Bank.

In respect of investment related responsibilities, the Executive Committee reviews and approves at its level the investment strategies and investment decisions of the Bank in accordance with the recommendations of the Investment and Credit Committee at certain key commitment stages, including:

- Approving detailed due diligence for, and investment in, Private Equity transactions;
- Approving follow-on investment in, post-acquisition monitoring for, and exits of Private Equity transactions;
- Approving Asset Management fund products and reviewing fund performance, allocation, and strategy; and
- Approving fee levels and other terms of engagement for Corporate Finance deals

#### Risk Management

The Executive Committee will maintain oversight of the Bank's internal risk and capital management framework and systems and will review at least on an annual basis, the effectiveness of its systems. It articulates the Bank's risk appetite against which to compare the amount of capital at risk on a forward-looking basis, as determined by exposures to credit, market, liquidity, operational, concentration, settlement, reputational and business cycle risks. It also ensures that senior management continues to take necessary steps to monitor and control the Bank's exposures through appropriate risk assessment and compliance to risk management policies.

#### **Members:**

- Sh. Rashid Al Khalifa – *Chairman of the Executive Committee;*
- Dr. A. Rahman Saif – *Vice Chairman of the Executive Committee;* and
- Najah Al Aali - *Member of the Executive Committee.*

## **Audit Committee**

The purpose of the Audit Committee is to assist the Board of Directors in maintaining oversight of the integrity of the Bank's financial reporting system and to ensure the adequacy of the Bank's internal control and risk management processes. The Committee monitors the performance of the independent auditors and the Bank's internal audit function. In addition it reviews the independent auditor's qualifications and independence. Furthermore, it overlooks the Bank's compliance with legal and regulatory requirements and Shari'a rules.

### **Members:**

- Karim Bucheery – *Chairman of the Audit Committee;*
- Reyadh Sater – *Vice Chairman of the Audit Committee;* and
- Dr. Ahmed Abdul Ghani - *Member of the Audit Committee.*

## **Management Committees**

Capinova has four Management Committees – Asset Liability Management Committee (ALCO), Risk Management Committee (RMC), Senior Human Resources Committee (SHRC) and Investment & Credit Committee (ICC).

### **Asset Liability Management Committee**

The objective of the Asset Liability Management Committee is to prudently direct and manage asset and liability allocations to achieve the Bank's strategic goals. The Committee will monitor the Bank's liquidity risks by ensuring that the Bank's activities are compatible with the risk / reward guidelines approved by the Board. It effectively manages the Bank's liquidity requirements to meet business needs during normal conditions and during times of crisis and monitors the Bank's asset / liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates. In addition, it reviews the Bank's capital adequacy position and addresses capital management strategies from an ICAAP perspective, as well as monitoring all aspects of liquidity policy including contingency planning and limits to ensure effective management of a liquidity crisis were it to occur. Furthermore, it develops asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general within the Board-approved parameters.

### **Investment and Credit Committee**

The Investment and Credit Committee reviews and evaluates the performance of the investment portfolios, investment managers and other investment professionals regularly, to ensure adherence to policy guidelines and to monitor progress towards achieving investment objectives. The Committee examines and approves each investment proposal/credit facility within the Committee authority limits and provides independent comments and recommendations to the Executive Committee and Board. In addition, it reviews the Bank's list of approved investment agents, correspondent banks and their respective exposure limits.

## Risk Management Committee

The Risk Management Committee defines and recommends risk parameters and benchmarks that are consistent with the Bank's strategic business objectives and risk appetite. It proactively reviews the Bank's risk profile and ensures that it is within the risk parameters approved by the Board of Directors.

The Committee oversees the operations of the Risk Management Department, which is charged with the responsibility for day-to-day monitoring of risk, reviews the Bank's provisioning and capital adequacy requirements, and allocates capital to business lines as required.

## Senior Human Resources Committee

The Senior Human Resources Committee establishes and maintains the HR Policy and related procedures based on best market practice to ensure that all matters concerning employee compensation and benefits are effectively managed. The Committee determines how to attract, retain and motivate high caliber executives consistent with the human resource needs of the bank so as to further enhance its performance. In addition, it seeks to motivate management to pursue the long-term growth and success of the Bank within an appropriate control framework. Furthermore, the Committee establishes a healthy culture within the Bank and provides a system for objectives setting and performance evaluation.

## Members of Management Committees

Members	Asset Liability	Risk Management	Investment and Credit	Senior Human Resources
Chief Executive Officer	X	X	X	X
Chief Investment Officer	X	X	X	X
Chief Operating Officer	X	X	X	X
Head of Private Equity	X		X	
Head of Asset Management	X		X	
Head of Corporate Finance	X		X	
Head of Risk Management	X	X	X	
Head of Financial Control	X			
Head of Treasury	X	X	X	
Head of Compliance		X	X	
Head of HR and Admin				X
Head of Placement			X	
Business Unit Representative				X

## Sharia Supervisory Board

The Sharia Supervisory Board at Capinnova is a key player in the overall performance of the Bank. Consisting of three distinguished and renowned scholars, the Board reviews the Bank's activities, as well as products and investment transactions, to ensure their full compliance with the principles and rules of Islamic Sharia.

### Members:

#### **Sheikh Osama Mohammed Saad Bahar, Chairman of the Shari'a Supervisory Board**

Sheikh Osama Mohammed Saad Bahar is a recognized Shari'a scholar, specialized in Islamic finance. Sheikh Osama has extensive experience and expertise in structuring Islamic finance products and preparing Shari'a contracts as well as authoring research papers on Islamic Banking and finance. He is currently working with First Energy Bank as Head of Shari'a Compliance and Advisory. Sheikh Osama is also a member and an adviser of several Shari'a Supervisory Boards, namely:

- Al Aseel Equity Fund - a subsidiary of Shamil Bank
- Investate - Investment Company
- Global Banking Corporation
- International Investment Bank
- Sakana Holistic Housing Solutions

Sheikh Osama graduated with a Bachelor's Degree in Islamic Shari'a from Prince Abdul Qader University of Islamic Studies in Algeria and went on to become an officer at Bahrain's Ministry of Justice and Islamic Affairs.

#### **Sheikh Mohsin Abdul Hussain Al Asfoor, Member of the Shari'a Supervisory Board**

Sheikh Mohsin Abdul Hussain Al Asfoor is highly respected for his knowledge of principles of Shari'a, integrity and steadfastness. He is well-versed in modern banking and financial practices and understands financial transactions and products. He is the Head of Science Research Centre Establishment, member of curriculum recording at Jaffaria Religious Institute and a former Judge at the Supreme Shari'a at Appeal Court. Sheikh Al Asfoor is currently a Shari'a Board member with Islamic International Rating Agency, the Central Bank of Bahrain and an Executive Shari'a board member at Takaful. Sheikh Asfoor is a graduate of the Religious Institute (HOZA), Qum, Iran. He is the author of ten articles and more than 50 books treating various religious issues.

#### **Sheikh Waleed Abdul Monem Ahmed Al Mahmood, Member of the Shari'a Supervisory Board**

Sheikh Waleed Abdul Monem Ahmed Al Mahmood began working in 1989 as a legal researcher at The Research and Legal Affairs Department at the General Organization for Social Insurance. After 10 years as a legal researcher, he joined the Shari'a Supervision Department in Albaraka Islamic Bank as a manager. In 2005, he served as a Shari'a Judge in the High Court at the Ministry of Justice and Islamic Affairs and in 2007 he served as a Member of the Shari'a Supervisory Board in Albaraka Islamic Bank. Sheikh Al Mahmood is a member of the Islamic Society in Bahrain and has participated on many occasions in specialized Fiqh (jurisprudence) conferences and seminars, as well as providing numerous contributions to preaching and religious teaching in mosques in Bahrain. He received his Master's degree in Shari'a and Law from the American Open University in 2007.

## Executive Management

### **Jamal Hijres, Chief Executive Officer**



Mr. Jamal Hijres started his Banking career with BBK where he gained over 30 years of banking experience in Commercial Banking. Before joining Capinnova Investment Bank, Jamal worked with BBK in key management positions as Head of Risk Management Department, Head of Corporate Banking Division, and Head of Retail Banking Division.

Currently Jamal is the Vice Chairman of Sakana, a Board Member of Bahrain Commercial Facilities Company (BCFC), CrediMax and National Motor Company (NMC). He holds a Bachelor degree in Accounting and an MBA from the University of Bahrain.

### **Jameel Al-Saati, Chief Investment Officer**



Mr. Jameel Al-Saati brings 28 years of Investment Banking experience to his current role as a Chief Investment Officer at Capinnova Investment Bank. Jameel entertains significant hands-on experience in Investment Banking and successful development of new business set ups and ventures.

Mr. Al-Saati set up the Kuwait Middle East Financial Investment Company (KMEFIC) in UAE where he served as the General Manager. He also headed the Investment and Trading division at the National Bank of Abu Dhabi. Mr. Al-Saati has served on different boards of portfolio companies owned by Banks. Jameel holds a Bachelor degree in Business Administration from the University of Bahrain and an MBA from University of Mangalore. He represented Banks at the major international conferences in the IMF and the World Bank.

### **Dr. Ken Baldwin, Chief Operating Officer**



Dr. Ken Baldwin comes to Capinnova Investment Bank with extensive experience in Investment Banking, having worked for top-tier Investment Houses in both London and the Middle East. His experience spans two decades, having built his career from an accounting foundation qualifying with Price Waterhouse, and then moving to UBS, and later Credit Suisse, to take up positions in risk and control of derivative products. Following a brief period of graduate studies, Dr. Baldwin then relocated to the Middle East to pursue a front-office role in derivative structuring with Citibank before deciding to direct his focus to Private Equity, taking up senior Treasury and Risk Management positions at Investcorp, and more lately heading the Risk Management department for Venture Capital Bank.

Dr Baldwin has a first class honours degree in Physics from Oxford University, is a Member of the Institute of Chartered Accountants in England and Wales, and holds a Ph.D. in Game Theory. Dr. Baldwin has also authored several publications concerning the management of risk in Islamic Financial Institutions.

## Risk Management

### Risk Management Overview

The current economic crisis has reinforced the importance of sound risk management as an imperative for all banks. Capinnova's approach to risk management reflects best-practice, benefiting from the support of its long-established parent, BBK, to create a well-structured corporate governance framework in which the Board is able to completely fulfil its oversight responsibility for managing the Bank's risks, as well as the insight of a talented and seasoned senior management team.

The Bank seeks to instil a risk management culture in all its activities. Consequently, during 2009 the Bank developed a robust risk management framework, first establishing respective executive management committees (and supporting charters) which specifically meet to deliberate risk issues, as well as comprehensive risk and capital management policies laying down the Bank's internal requirements to identify, measure, control, monitor and report the various risks to which it is, or may become, exposed.

The Bank's management committees meet at least monthly and those specifically dealing with risk management at a Bank-wide level are the following:

- Risk Management Committee (RMC)

The RMC enables management to collectively deliberate, and make decisions relating to the management of risks wherever and however arising to which the Bank is, or may become, exposed. Committee matters include risk management strategy and supporting policies, balance sheet management, capital adequacy, and articulating the Bank's risk appetite.

- Asset Liability Committee (ALCO)

The objective of the ALCO is to prudently direct and manage asset and liability allocation to achieve the Bank's strategic goals. The ALCO monitors the Bank's liquidity risks by ensuring that the Bank's activities are compatible with the risk and reward guidelines as approved by the Board.

A further layer of risk management safeguard is provided by the role that the Risk Management Department fulfils in its capacity as voting member of the Investment and Credit Committee (ICC), which is an Executive Management Committee responsible for overseeing the approval, management and performance of the Bank's investment and credit extension. The ICC meets to consider and evaluate all proposed investment and credit opportunities coming before it for recommendation to the Executive Committee (a sub-committee of the Board of Directors). Importantly, the Risk Management Department undertakes a thorough, and independent, assessment of all the risks attributable to each proposed transaction prior to possible consummation, which is a crucial line of defence and acts to enhance the investment and credit extension decision-making process.

## **Managing Risks**

The Bank has established a limit structure to prudently manage its various risk exposures, including country limits, sector limits, foreign currency exposure limits, liquidity limits and inter-Bank limits, along with a corresponding monitoring and reporting process to ensure limit adherence. The Bank also deploys a risk scoring methodology to compare the risk of different opportunities and to structure the limits which govern the approval of investment and credit opportunities between the Board of Directors, Ex-com and the ICC.

The various risks arising from the Bank's activities are detailed in the following, along with the manner in which such specific risks are managed:

### **Investment Risks**

Investment risk can be defined as the volatility of expected returns to be realized from an investment. Investment risk can result in delays in the liquidation of investments or loss in their value. Investment risk arises from transactions of the Private Equity and Asset Management Departments.

Within investment risks are:

- Business risk: includes the economic and operating risk of investee companies or projects;
- Currency risk: arises when the assets or business operations of an investee company or project are denominated in foreign currencies;
- Exit risk: an inability to liquidate an investment exposure at the perceived market value within a given time frame;
- Political risk: may lead to a loss in value of an investment or delay in its liquidation process due to changes in a country's political structure or policies (e.g. tax laws, tariffs, asset expropriation, and profit repatriation);
- Valuation risk: stems from applying unrealistic assumptions about the earning capacity of an investee company or project; and
- Underwriting risk: arises from the possibility that investor participation in prospective investments is below expectation, with more of the Bank's capital being tied into the prospective investment than initially planned.

Investment risk is managed through extensive due diligence prior to consummating an investment transaction, in addition to thorough post-acquisition management intended to highlight changes in financial conditions or risks arising which could affect the expected future performance of an investment. Specific risk issues are identified at all stages of the investment cycle through comprehensive evaluation and ongoing monitoring which benefits from a close collaboration between the business units, the Risk Management Department, and executive management.

## **Credit Risks**

Credit risk is the risk of financial loss arising from the possibility that counterparty fails to meet an obligation under a contract. Some of the sources of credit risk in the Bank include the following:

- **Project finance:** involves financing for the purpose of undertaking a specific project. The Bank relies principally on the revenues expected to be generated by the project for the repayment of its credit facility and on the assets of the project as collateral rather than on the general credit worthiness of the project sponsor;
- **Mergers and acquisitions (“M&A”):** involves providing financing to counterparties for the purpose of M&A which they intend to undertake and therefore exposing the Bank to the potential for failure and consequent default of the merged entity;
- **Asset-backed securities and Sukuk:** involves investment in asset-backed securities and Sukuk which expose the Bank to the potential for default on the underlying asset;
- **Short term placements with Banks and Financial Institutions;** and
- **Foreign exchange transactions:** involves the exchange of currencies whereby the Bank is exposed to counterparty credit risk up to the full value of the bought currency.

In common with investment risk, credit risk management relies on extensive pre-credit-extension evaluation, and thorough monitoring and reporting throughout the period of credit exposure for each individual transaction. Additional risk mitigation measures deployed that are specific to credit risk include use of eligible collaterals and guarantees which are Shari’a compliant.

## **Other Types of Risk**

The Bank is also exposed to several other risks common to financial institutions. Such risks include Market risk, Liquidity risk, and Profit rate risk (the risk arising due to change in benchmark rates applied to determine the cost of funds or the income earned from placing excess liquidity). These risks are principally within the remit of the ALCO as they concern balance-sheet management and arise at Bank-wide level. Reputational risk (arising due to any potential non-performance and/or association with businesses/investments which may be unethical, fraudulent, illegal or non- Shari’a compliant) is managed by application of the Bank’s Corporate Communications processes, as well adherence to established clear policies governing all interactions that the Bank and its personnel have with outside institutions, corporate bodies, and individuals.

Shari’a compliance risk is specific to financial institutions licensed as Islamic Banks and arises from the possibility of a financial product or investment not being in compliance with established Shari’a principles and guidelines. This risk can arise in any type of transaction based on its structure and is managed by ensuring that all transactions, including those which are Treasury-related, have the necessary Shari’a approvals prior to execution.

## **Basel II**

In accordance with regulatory requirements stipulated by the Central Bank of Bahrain (CBB), the implementation of Basel II guidelines is expected to further improve the Bank's risk management processes, supervisory reviews, disclosure standards and capital management. The Bank has adopted the Standardised Approach for Credit risk and the Basic Indicator Approach for Operational Risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## **Economic Capital**

The Bank's measured approach to deploying capital to its core lines of business relies on a forward-looking assessment of the Bank's economic capital utilization, being the amount of capital required to support investments, as adjusted for the risk of unexpected losses associated with them, as well as the capital required to support all other types of risks (e.g. reputational risk, liquidity and strategic risk). This discipline is embedded in the Bank's approach to business planning, for which capital adequacy is projected under business scenarios including alternate capital structures in which the Bank's equity is leveraged, thereby allowing the impact of future financing decisions to incorporate both liquidity and capital adequacy considerations.

## Report of the Shari'a Supervisory Board

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh,

In compliance with the letter of appointment and the Bank's Articles of Association, we are required to submit the following report:

We have reviewed the principle transactions done by Capinnova Investment Bank during the twelve months period ended 31st December 2009. We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a rules and principles.

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

We conducted our review, on a basis of type of transactions entered, the relevant documentation, and procedures adopted by the Bank. We planned and performed our review so as to obtain all the information and explanations which were considered necessary in order to provide us with sufficient evidence to give assurance that the Bank has not violated the rules and principles of Islamic Shari'a.

In our opinion;

- a) Transactions entered into by the Bank during the twelve months period ended 31st December 2009 are in compliance with the Islamic Shari'a rules and principles;
- b) All earning that have been realized from sources or by means prohibited by Islamic Shari'a rules and principles have been transferred to Charity account; and
- c) The shareholders of Capinnova Investment Bank have authorized the Bank to pay the Zakah on their behalf effective October 2009.

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

For Shari'a Supervisory Board

Sheikh Osama Mohammed Saad Bahar

Sheikh Mohsin Abdul Hussain Al Asfoor

Sheikh Waleed Abdul Monem Al Mahmood

## Report of the External Auditors

We have audited the accompanying financial statements of Capinnova Investment Bank B.S.C. (c) [the Bank], which comprise the balance sheet as at 31 December 2009 and the related statements of income, cash flows, changes in equity and sources and uses of charity funds for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Board of Directors' Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

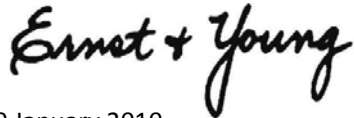
We conducted our audit in accordance with both International Standards on Auditing and Auditing Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, the results of its operations, its cash flows, changes in equity and sources and uses of charity funds for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

## Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these 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 2009 that might have had a material adverse effect on the business of the Bank or on its financial position, and that the Bank has complied with the terms of its Banking licence.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

20 January 2010

Manama, Kingdom of Bahrain

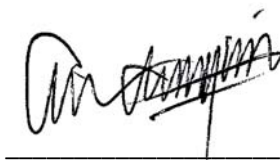
## Financial Statements

### Capinnova Investment Bank B.S.C. (c)

#### BALANCE SHEET

As at 31 December 2009

	Note	2009 US\$	2008 US\$
<b>ASSETS</b>			
Bank balances	3	5,998,355	958,184
Murabaha receivables	4	97,707,377	7,414,909
Istisna'a contract	5	8,192,868	-
Mudaraba investment	6	5,000,000	1,088,688
Equipment	7	1,115,913	1,017,437
Other assets	8	220,676	194,758
<b>TOTAL ASSETS</b>		<b>118,235,189</b>	<b>10,673,976</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha payables		-	441,667
Other liabilities	9	213,640	245,353
Total liabilities		213,640	687,020
<b>EQUITY</b>			
Share capital	10	125,000,000	12,500,000
Statutory reserve	11	91,612	91,612
Accumulated losses		(7,070,063)	(2,604,656)
Total equity		118,021,549	9,986,956
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>118,235,189</b>	<b>10,673,976</b>



Abdul Karim Bucheery

Chairman



Jamal Hijres

Chief Executive Officer

## Capinnova Investment Bank B.S.C. (c)

### STATEMENT OF INCOME

For the year ended 31 December 2009

	Note	2009 US\$	2008 US\$
Profit on murabaha receivables		2,068,163	355,345
Profit on mudaraba investments		57,690	40,303
Profit from Istisna'a contract	5	471,611	-
		<u>2,597,464</u>	<u>395,648</u>
Profit on murabaha payables		(9,777)	(12,360)
		<u>2,587,687</u>	<u>383,288</u>
Fee and commission income		411,878	-
		<u>2,999,565</u>	<u>383,288</u>
Staff costs		5,164,869	2,613,806
Depreciation	7	300,737	139,617
General and administration expenses		1,999,366	714,880
		<u>7,464,972</u>	<u>3,468,303</u>
<b>LOSS FOR THE YEAR</b>		<u><b>(4,465,407)</b></u>	<u><b>(3,085,015)</b></u>

Capinnova Investment Bank B.S.C. (c)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 US\$	2008 US\$
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(4,465,407)	(3,085,015)
Adjustment:			
Depreciation	7	300,737	139,617
		<u>(4,164,670)</u>	<u>(2,945,398)</u>
Changes in:			
Murabaha receivables		(4,180,278)	-
Istisna'a contract	5	(8,192,868)	-
Other assets		(25,918)	24,177
Murabaha payables		(441,667)	441,667
Other liabilities		(31,713)	166,067
		<u>(17,037,114)</u>	<u>(2,313,487)</u>
<b>INVESTING ACTIVITIES</b>			
Mudaraba investment	6	(3,911,312)	(1,088,688)
Purchase of equipment	7	(399,213)	(1,157,054)
		<u>(4,310,525)</u>	<u>(2,245,742)</u>
<b>FINANCING ACTIVITY</b>			
Increase in share capital	10	112,500,000	-
		<u>112,500,000</u>	<u>-</u>
Net cash from financing activity		<u>112,500,000</u>	<u>-</u>
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>		<b>91,152,361</b>	<b>(4,559,229)</b>
Cash and cash equivalents at the beginning of the year		<u>8,373,093</u>	<u>12,932,322</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b><u>99,525,454</u></b>	<b><u>8,373,093</u></b>
Cash and cash equivalents comprise of the following amounts:			
Bank balances		5,998,355	958,184
Murabaha receivables with original maturity of 90 days or less		93,527,099	7,414,909
		<u>99,525,454</u>	<u>8,373,093</u>

**Capinnova Investment Bank B.S.C. (c)**

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	<i>Share capital US\$</i>	<i>Statutory reserve US\$</i>	<i>Accumulated losses US\$</i>	<i>Total US\$</i>
At 1 January 2008	12,500,000	91,612	480,359	13,071,971
Net loss for the year	-	-	(3,085,015)	(3,085,015)
At 1 January 2009	12,500,000	91,612	(2,604,656)	9,986,956
Issue of shares (note 10)	112,500,000	-	-	112,500,000
Net loss for the year	-	-	(4,465,407)	(4,465,407)
<b>At 31 December 2009</b>	<b>125,000,000</b>	<b>91,612</b>	<b>(7,070,063)</b>	<b>118,021,549</b>

Capinnova Investment Bank B.S.C. (c)

STATEMENT OF SOURCES AND USES OF CHARITY FUNDS

For the year ended 31 December 2009

	<i>Note</i>	<b>2009</b> <b>US\$</b>	<b>2008</b> <b>US\$</b>
<b>Sources of charity funds</b>			
Interest earned on the Central Bank of Bahrain deposit	18	<u>1,181</u>	<u>1,249</u>
<b>Excess of sources over uses</b>		<b>1,181</b>	<b>1,249</b>
Undistributed charity funds at 1 January		<u>75,956</u>	<u>74,707</u>
<b>Undistributed charity funds at 31 December</b>		<b><u>77,137</u></b>	<b><u>75,956</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2009

### 1 INCORPORATION AND ACTIVITIES

Capinova Investment Bank B.S.C. (c) [the Bank] was incorporated on 6 June 1999 in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 43137. The Bank operates under an Islamic wholesale Banking licence issued by the Central Bank of Bahrain [the CBB]. Effective from 14 January 2009, the name of the Bank has been changed from Al-Khaleej Islamic Investment Bank B.S.C. (c) to Capinova Investment Bank B.S.C. (c) as approved through a resolution of Board of Directors dated 8 September 2008.

The Bank's registered office is West Tower, Floor 38, Bahrain Financial Harbour, P.O. Box 5507, Kingdom of Bahrain.

The principal activities of the Bank include providing investment Banking services in conformity with Islamic Shari'a. The Bank is a wholly owned subsidiary of BBK B.S.C. [the Parent].

The financial statements were authorised for issue by a resolution of the Board of Directors on January 20, 2010.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

These financial statements have been prepared in accordance with Financial Accounting Standards [FAS] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI] and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters which are not covered by AAOIFI standards, the Bank uses the relevant International Financial Reporting Standards issued by the International Accounting Standards Board.

The financial statements are prepared in US Dollars, being the functional currency of the Bank's operations. The financial statements are prepared under the historical cost convention.

The accounting policies are consistent with those used in the previous year except for a policy for Zakah.

Following is a summary of the significant accounting policies adopted in preparing the financial statements:

#### Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, balances with Banks and Murabaha receivables with original maturity of ninety days or less.

#### Murabaha receivables

Murabaha receivables with Banks comprise commodity Murabaha receivables stated net of deferred profits and provision for impairment.

Murabaha receivables are sales on deferred terms. The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to the client after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the client over the agreed period.

**Istisna'a contract**

Istisna'a contract comprises of direct costs of constructing 'Al-Masnoo' and indirect costs relating to the contract allocated on an objective basis. Istisna'a costs incurred during the year are recognised as an asset.

**Mudaraba investments**

Mudaraba is a partnership between one party, which provides the capital (Rabulmal), and another, which possesses the necessary skills and expertise to manage such capital (Mudarib), for a pre-determined share of profit. These are stated at the fair value of consideration given less provision for impairment.

**Equipment and depreciation**

Equipment is stated at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. Depreciation is provided on a straight line basis on all equipment over its expected useful life.

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

Furniture	5 years
Office equipment	3 years
Vehicles	5 years

**Murabaha payables**

Murabaha payables are carried at cost plus accrued profit less amounts repaid.

**Provisions**

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

**Offsetting financial instruments**

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, if and only if, there is a legally enforceable or religious right to set off the recognised amounts and the Bank intends to settle on a net basis.

**Revenue recognition***Murabaha receivables*

Where income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time apportioned basis over the period of the contract, based on principal amounts outstanding. Income from a contract that is not contractually determined or quantifiable is recognised when realised. Income that is 90 days or more overdue is not recognised until received in cash.

*Profit from Istisna'a*

Istisna'a income is recognised over the construction period using the percentage completion method.

*Mudaraba investments*

Income and losses on Mudaraba transactions are recognised when the right to receive is established or these are declared by the Mudarib, whichever is earlier.

*Fee and commission income*

Fee and commission income is recognised when earned.

**Profit on Murabaha payables**

Profit on Murabaha payables is accrued on the basis of terms and conditions of the individual contracts.

**De-recognition of financial assets and financial liabilities***Financial assets*

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 right to receive cash flows from the asset have expired; or
- the Bank 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 third party under a 'pass-through' arrangement; and
- either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

*Financial liabilities*

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

**Earnings prohibited by Shari'a**

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

**Foreign currencies**

Transactions in foreign currencies are recorded in US dollars at the exchange rate prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into US dollars at the exchange rates prevailing at the balance sheet date. Any resultant gains or losses are taken to the statement of income.

**Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

**Zakah**

Zakah is calculated on the Zakah base of the Bank in accordance with the Financial Accounting Standards issued by the AAOIFI using the net assets method. In accordance with the decision of the Board of Directors of the Bank duly approved by the Shari'a Supervisory Board, the responsibility of payment of Zakah is on the Bank effective from October 2009. Previously the responsibility of payment of Zakah was on the shareholder of the Bank.

**Shari'a Supervisory Board**

The Bank's business activities are subject to the supervision of a Shari'a Supervisory Board consisting of three members appointed by the general assembly.

**Ijara**

The determination of whether an arrangement is, or contains an Ijara is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating Ijara payments are not recognised in the balance sheet. Any rentals payable are accounted for on a straight-line basis over the term of operating Ijara and included in 'General and administration expenses'.

**Employees' end of service benefits**

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the balance sheet. Bahraini employees are covered under the Social Insurance Organisation.

**Judgements and estimates**

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are discussed below:

*Impairment and un-collectability of financial assets*

An assessment is made at each balance sheet date to determine whether there is 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 is determined and any impairment loss, based on the assessment by the Bank of the value to it of anticipated future cash flows, is recognised in the statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

### 3 BANK BALANCES

	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>
Cash in hand	<b>796</b>	-
Balance with BBK B.S.C.	<b>5,982,147</b>	958,184
Balance with other bank	<b>15,412</b>	-
	<b><u>5,998,355</u></b>	<b><u>958,184</u></b>

### 4 MURABAHA RECEIVABLES

	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>
Murabaha receivables	<b>98,253,104</b>	7,418,348
Less: Deferred profit	<b>(545,727)</b>	(3,439)
	<b><u>97,707,377</u></b>	<b><u>7,414,909</u></b>

Murabaha receivables amounting to US\$ 93,527,098 (2008: nil) have been guaranteed by the Parent (note 15).

### 5 ISTISNA'A CONTRACT

During the year the Bank has entered into an Istisna'a financing agreement for the construction of a commercial project in the Kingdom of Bahrain.

	<b>2009</b>
	<b>US\$</b>
Receivable from Istisna'a contract	<b>8,192,868</b>
Cost of Istisna'a work in progress	<b>(7,721,257)</b>
Profit from Istisna'a contract	<b><u>471,611</u></b>

### 6 MUDARABA INVESTMENT

This represents Mudaraba investment with a bank and carries an expected profit rate of 3.6% (2008: 3.2%).

## 7 EQUIPMENT

	<b>2009</b>			
	<b>Furniture US\$</b>	<b>Office equipment US\$</b>	<b>Vehicles US\$</b>	<b>Total US\$</b>
<b>Cost</b>				
As at 1 January	1,294,843	283,536	-	1,578,379
Additions	170,651	133,072	95,490	399,213
As at 31 December	<u>1,465,494</u>	<u>416,608</u>	<u>95,490</u>	<u>1,977,592</u>
<b>Depreciation</b>				
As at 1 January	500,953	59,989	-	560,942
Charged during the year	207,160	76,154	17,423	300,737
As at 31 December	<u>708,113</u>	<u>136,143</u>	<u>17,423</u>	<u>861,679</u>
Net book value as at 31 December	<u><u>757,381</u></u>	<u><u>280,465</u></u>	<u><u>78,067</u></u>	<u><u>1,115,913</u></u>

	<b>2008</b>			
	<b>Furniture US\$</b>	<b>Office equipment US\$</b>	<b>Vehicles US\$</b>	<b>Total US\$</b>
<b>Cost</b>				
As at 1 January	377,422	43,903	-	421,325
Additions	917,421	239,633	-	1,157,054
As at 31 December	<u>1,294,843</u>	<u>283,536</u>	<u>-</u>	<u>1,578,379</u>
<b>Depreciation</b>				
As at 1 January	377,422	43,903	-	421,325
Charged during the year	123,531	16,086	-	139,617
As at 31 December	<u>500,953</u>	<u>59,989</u>	<u>-</u>	<u>560,942</u>
Net book value as at 31 December	<u><u>793,890</u></u>	<u><u>223,547</u></u>	<u><u>-</u></u>	<u><u>1,017,437</u></u>

## 8 OTHER ASSETS

	<b>2009 US\$</b>	<b>2008 US\$</b>
Accrued profit	2,951	40,549
Deposit with the Central Bank of Bahrain	53,050	53,050
Prepayments	164,675	101,159
	<u><u>220,676</u></u>	<u><u>194,758</u></u>

## 9 OTHER LIABILITIES

	<b>2009 US\$</b>	<b>2008 US\$</b>
Accrued expenses	136,503	169,397
Charity funds	77,137	75,956
	<u><u>213,640</u></u>	<u><u>245,353</u></u>

## 10 SHARE CAPITAL

	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>
<b>Authorised</b>		
Ordinary shares of US\$ 1 each (2008: US\$ 1 each)	<b>500,000,000</b>	35,000,000
<b>Issued and fully paid up</b>		
At beginning of the year		
Ordinary shares of US\$ 1 each (2008: US\$ 1 each)	<b>12,500,000</b>	12,500,000
Issued during the year		
Ordinary shares of US\$ 1 each	<b>112,500,000</b>	-
At end of the year		
Ordinary shares of US\$ 1 each (2008: US\$ 1 each)	<b>125,000,000</b>	12,500,000

Effective from 14 January 2009, the Bank has increased the authorised capital from US\$ 35,000,000 to US\$ 500,000,000 and paid-up capital from US\$ 12,500,000 to US\$ 125,000,000 as approved through a resolution of Board of Directors dated 8 September 2008.

## 11 STATUTORY RESERVE

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. No transfer has been made for the current year as there was a net loss for the year (2008: same). The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

## 12 CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Bahrain.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Bank complied in full with all externally imposed capital requirements (2008: same).

	<b>2009</b>	<b>2008</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Tier 1 capital - Note 12 (i)	<b>117,084</b>	9,987
Total capital base	<b>117,084</b>	9,987
Risk weighted assets - Note 12 (iii)	<b>43,445</b>	6,963
Capital ratio	<b>269.5%</b>	143.4%
Minimum regulatory capital	<b>12%</b>	12%

(i) Tier I capital

Tier I Capital comprises of share capital, accumulated losses and statutory reserve.

## 12 CAPITAL MANAGEMENT (continued)

### (ii) Tier II capital

Only unaudited net income for the year and unrealised gains are classified under Tier II. Once the financial statements are audited these balances are classified as Tier I and, as a result, at financial year end the Bank will not have any Tier II capital.

### (iii) Risk weighted assets

Risk weighted assets are calculated in accordance with the rules laid down by the Central Bank of Bahrain.

## 13 SEGMENTAL INFORMATION

The activities of the Bank are all related to investment banking activities.

The Bank's assets are distributed into two geographical segments which are Middle East and Europe. Europe predominantly includes Murabaha receivables of US\$ 96,179,618 (2008: nil) and related profit on Murabaha receivables of US\$ 851,983 (2008: nil).

## 14 COMMITMENTS

The Bank has entered into an operating Ijara for office space. There are no restrictions placed upon the Ijara. The future minimum rentals are due as follows:

	<b>2009</b> <b>US\$</b>	<b>2008</b> <b>US\$</b>
Within one year	<b>259,545</b>	259,403
After one year but not more than five years	<b>432,102</b>	691,505
	<b><u>691,647</u></b>	<b><u>950,908</u></b>

## 15 RELATED PARTY TRANSACTIONS

Related parties comprise shareholder (the Parent), directors of the Bank, Shari'a Supervisory Board, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Bank.

	<b>2009</b> <b>US\$</b>	<b>2008</b> <b>US\$</b>
<b>Balance sheet</b>		
Murabaha receivables from the Parent (note 4)	<b>93,527,098</b>	7,414,909
Bank balance with the Parent	<b>5,982,147</b>	958,184
	<b><u>99,509,245</u></b>	<b><u>8,373,093</u></b>
	<b>2009</b> <b>US\$</b>	<b>2008</b> <b>US\$</b>
<b>Statement of income</b>		
Profit on Murabaha receivables from the Parent	<b><u>287,774</u></b>	<b><u>355,345</u></b>
<b>Compensation of the key management personnel</b>		
	<b>2009</b> <b>US\$</b>	<b>2008</b> <b>US\$</b>
Short term employee benefits	<b><u>380,506</u></b>	<b><u>312,757</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2009

### 16 RISK MANAGEMENT

The Board of Directors is responsible for the overall risk management and for approving risk management guidelines and principles.

#### a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

The Bank does not engage in commercial or retail banking, its exposure to credit risk arises largely through placement of funds in Bank's Murabaha contracts, Mudaraba and Istisna'a contract.

The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	<b>Gross maximum exposure 2009 US\$</b>	<i>Gross maximum exposure 2008 US\$</i>
Bank balances	<b>5,997,559</b>	958,184
Murabaha receivables	<b>97,707,377</b>	7,414,909
Istisna'a contract	<b>8,192,868</b>	-
Mudaraba investments	<b>5,000,000</b>	1,088,688
Accrued profit	<b>2,951</b>	40,549
	<b><u>116,900,755</u></b>	<u>9,502,330</u>

The main types of collaterals held in relation to the above include commercial real estate and a guarantee from financial institution.

#### *Concentration of credit risk*

Concentration of credit risk is managed according to counterparty. The maximum exposure to a single counterparty as of 31 December 2009 was US\$ 93,527,098 (2008: US\$ 7,414,909).

#### *Past due or impaired financial assets*

The Bank did not have any past due or impaired balance as at 31 December 2009 (2008: same).

#### *Analysis of exposure to credit risk by external credit ratings*

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by Fitch credit ratings of the counterparties where relevant:

	<b>2009 US\$</b>	<i>2008 US\$</i>
A+ to A-	<b>5,982,147</b>	7,414,909
Not rated	<b>104,915,744</b>	1,129,237
	<b><u>110,897,891</u></b>	<u>8,544,146</u>

Capinnova Investment Bank B.S.C. (c)  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2009

**16 RISK MANAGEMENT (continued)**

**b) Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate the risk the Bank has diversified funding sources, and manages its assets with liquidity in mind, by maintaining an adequate balance of cash and cash equivalents at all times.

The table below summarises the maturity profile of the Bank's assets and liabilities on expected repayment arrangements as at 31 December 2009:

	<i>Up to 1 month US\$</i>	<i>1 month to 3 months US\$</i>	<i>3 months to 6 months US\$</i>	<i>6 months to 1 year US\$</i>	<i>Less than 1 year US\$</i>	<i>Over 1 year US\$</i>	<i>Undated US\$</i>	<i>Total US\$</i>
<b>ASSETS</b>								
Bank balances	5,982,943	15,412	-	-	5,998,355	-	-	5,998,355
Murabaha receivables	93,527,099	198,832	1,328,926	2,652,520	97,707,377	-	-	97,707,377
Istisna'a contract	-	-	-	-	-	8,192,868	-	8,192,868
Mudaraba investment	5,000,000	-	-	-	5,000,000	-	-	5,000,000
Equipment	-	-	-	-	-	-	1,115,913	1,115,913
Other assets	6,574	71,986	9,368	74,486	162,414	5,212	53,050	220,676
	<b>104,516,616</b>	<b>286,230</b>	<b>1,338,294</b>	<b>2,727,006</b>	<b>108,868,146</b>	<b>8,198,080</b>	<b>1,168,963</b>	<b>118,235,189</b>
<b>LIABILITIES</b>								
Other liabilities	136,503	77,137	-	-	213,640	-	-	213,640
	<b>136,503</b>	<b>77,137</b>	<b>-</b>	<b>-</b>	<b>213,640</b>	<b>-</b>	<b>-</b>	<b>213,640</b>
Net gap	<b>104,380,113</b>	<b>209,093</b>	<b>1,338,294</b>	<b>2,727,006</b>	<b>108,654,506</b>	<b>8,198,080</b>	<b>1,168,963</b>	<b>118,021,549</b>
Cumulative net gap	<b>104,380,113</b>	<b>104,589,206</b>	<b>105,927,500</b>	<b>108,654,506</b>		<b>116,852,586</b>	<b>118,021,549</b>	

The maturity profile of assets and liabilities as of 31 December 2008 was as follows:

	<i>Up to 1 month US\$</i>	<i>1 month to 3 months US\$</i>	<i>3 months to 6 months US\$</i>	<i>6 months to 1 year US\$</i>	<i>Less than 1 year US\$</i>	<i>Over 1 year US\$</i>	<i>Undated US\$</i>	<i>Total US\$</i>
<b>ASSETS</b>								
Bank balances	957,384	800	-	-	958,184	-	-	958,184
Murabaha receivables	7,414,909	-	-	-	7,414,909	-	-	7,414,909
Mudaraba investment	1,003,061	85,627	-	-	1,088,688	-	-	1,088,688
Equipment	-	-	-	-	-	-	1,017,437	1,017,437
Other assets	69,709	-	-	-	69,709	-	125,049	194,758
	<u>9,445,063</u>	<u>86,427</u>	<u>-</u>	<u>-</u>	<u>9,531,490</u>	<u>-</u>	<u>1,142,486</u>	<u>10,673,976</u>
<b>LIABILITIES</b>								
Murabaha payables	83,333	166,667	191,667	-	441,667	-	-	441,667
Other liabilities	169,397	-	-	75,956	245,353	-	-	245,353
	<u>252,730</u>	<u>166,667</u>	<u>191,667</u>	<u>75,956</u>	<u>687,020</u>	<u>-</u>	<u>-</u>	<u>687,020</u>
Net gap	<u>9,192,333</u>	<u>(80,240)</u>	<u>(191,667)</u>	<u>(75,956)</u>	<u>8,844,470</u>	<u>-</u>	<u>1,142,486</u>	<u>9,986,956</u>
Cumulative net gap	<u>9,192,333</u>	<u>9,112,093</u>	<u>8,920,426</u>	<u>8,844,470</u>		<u>8,844,470</u>	<u>9,986,956</u>	

**c) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices.

*Profit rate risk*

Profit rate risk arises from the possibility that changes in the market profit rate will adversely affect the future profitability or the fair value of financial assets and liabilities. The Bank is exposed to profit rate risk on its Murabaha receivables and Mudaraba investments. The sensitivity of the Bank's statement of income for every 100 basis points increase (decrease) in profit rates, with all other variables held constant, would be an increase (decrease) of profit by US\$ 984,370 (2008: US\$ 99,865).

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's financial instruments are mainly denominated in Bahraini Dinars and in United States Dollars. As the Bahraini Dinar is pegged to the United States Dollar, the Bank's exposure to currency risk is minimal.

*Equity price risk*

Equity price risk is the risk that the fair value of equity investments decreases due to fluctuations in the respective stock market indices. At 31 December 2009, the Bank had no investments in equities (2008: same).

**d) Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk and Shari'a non-compliance risk, but excludes strategic and reputational risks. The management of operational risk in the Bank is the responsibility of every employee. The management of operational risk is carried out through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes, including the work of the internal audit department.

## **17 FAIR VALUES**

The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

## **18 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A**

The Bank receives interest on deposits placed with the Central Bank of Bahrain. This earning is not reflected as part of the income of the Bank. This earning is utilised exclusively for charitable purposes and have been disclosed in the statement of sources and uses of charity funds.

## **19 SOCIAL RESPONSIBILITY**

The Bank discharges its responsibilities by paying out Zakah and donations to charitable causes and organisations.

## **20 SUBSEQUENT EVENT**

At an Extraordinary General Meeting held on 23 December 2009, the Bank's Board of Directors has resolved to acquire 50% stake in Sakana Holistic Housing Solutions B.S.C. (c) (Sakana) from its Parent by way of issuing its ordinary shares. Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing. The transfer of ownership of Sakana is expected to be completed in January 2010.

## **21 ZAKAH**

Zakah is calculated on the Zakah base of the Bank according to Financial Accounting Standard 9 issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net assets method. The Zakah is calculated on the Bank's net assets at 31 December 2008 which amounts to US\$ 233,236. Although the responsibility of payment of Zakah is on the Bank, effective from October 2009, however, the shareholder of the Bank has fully paid the Zakah during the year. At 31 December 2009, the Bank has no liability with respect to Zakah.