

Capinnova Investment Bank B.S.C. (c)
INTERIM CONDENSED FINANCIAL STATEMENTS
30 SEPTEMBER 2010 (UNAUDITED)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF CAPINNOVA INVESTMENT BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed financial statements of Capinnova Investment Bank B.S.C. (c) [the Bank] as at 30 September 2010, comprising of the interim balance sheet as at 30 September 2010 and the related interim statements of income, cash flows, changes in equity and sources and uses of zakah and charity funds for the nine-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with note 2. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2 to interim condensed financial statements.



10 November 2010
Manama, Kingdom of Bahrain

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

INTERIM BALANCE SHEET

At 30 September 2010

	<i>Note</i>	<i>Unaudited</i> 30 September 2010 US\$	<i>Audited</i> 31 December 2009 US\$
ASSETS			
Bank balances		2,591,170	5,998,355
Due from an Islamic bank	3	10,001,944	-
Murabaha receivables		70,165,621	97,707,377
Istisna'a contract		15,330,185	8,192,868
Mudaraba investment		-	5,000,000
Investments in associate and joint venture	4	48,830,187	-
Equipment		878,584	1,115,913
Other assets		423,000	220,676
TOTAL ASSETS		148,220,691	118,235,189
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	5	1,898,352	213,640
Total liabilities		1,898,352	213,640
Equity			
Share capital	6	151,525,199	125,000,000
Statutory reserve		91,612	91,612
Accumulated losses		(5,273,869)	(7,070,063)
Foreign currency translation reserve		(20,603)	-
Total equity		146,322,339	118,021,549
TOTAL LIABILITIES AND EQUITY		148,220,691	118,235,189



A. Karim Bucheery
Chairman



Jamal Hijres
Chief Executive Officer

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

INTERIM STATEMENT OF INCOME

For the nine-month period ended 30 September 2010 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	2010	2009	2010	2009
<i>Note</i>	US\$	US\$	US\$	US\$
Profit on Murabaha receivables	513,531	457,819	1,469,283	1,637,077
Profit from Istisna'a contract	546,759	185,616	1,369,691	199,196
Profit on Mudaraba investment	17,709	10,299	122,188	32,878
Profit on balance due from an Islamic bank	44,722	-	105,972	-
Share of results of associate and joint venture	4 775,639	-	2,453,653	-
Gain on acquisition of joint venture	4 -	-	1,638,011	-
Other income	-	-	3,256	-
	1,898,360	653,734	7,162,054	1,869,151
Profit on Murabaha payables	-	-	-	(9,777)
	1,898,360	653,734	7,162,054	1,859,374
Fee and commission income	-	-	-	385,353
	1,898,360	653,734	7,162,054	2,244,727
Staff costs	(1,299,938)	(1,265,263)	(4,135,769)	(4,176,476)
General and administration expenses	(336,869)	(428,165)	(947,361)	(1,431,853)
Depreciation	(82,506)	(79,241)	(282,730)	(220,995)
	(1,719,313)	(1,772,669)	(5,365,860)	(5,829,324)
PROFIT (LOSS) FOR THE PERIOD	179,047	(1,118,935)	1,796,194	(3,584,597)

The attached explanatory notes 1 to 9 form part of these interim condensed financial statements

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

INTERIM STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2010 (Unaudited)

	Note	Nine months ended 30 September	
		2010 US\$	2009 US\$
OPERATING ACTIVITIES			
Profit (loss) for the period		1,796,194	(3,584,597)
Adjustments:			
Depreciation		282,730	220,995
Share of results of associate and joint venture	4	(2,453,653)	-
Gain on acquisition of joint venture	4	(1,638,011)	-
		<u>(2,012,740)</u>	<u>(3,363,602)</u>
Changes in:			
Murabaha receivables		(37,564,497)	-
Istisna'a contract		(7,137,317)	(5,005,520)
Other assets		(202,324)	(522,675)
Murabaha payables		-	(441,667)
Other liabilities		1,684,712	172,339
Net cash used in operating activities		<u>(45,232,166)</u>	<u>(9,161,125)</u>
INVESTING ACTIVITIES			
Mudaraba investment		5,000,000	28,746
Purchase of equipment		(45,401)	(371,831)
Acquisition of associate		(20,122,353)	-
Dividend from an associate	4	1,888,426	-
Net cash used in investing activities		<u>(13,279,328)</u>	<u>(343,085)</u>
FINANCING ACTIVITY			
Proceeds from issue of share capital		-	112,500,000
Net cash from financing activity		<u>-</u>	<u>112,500,000</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(58,511,494)	102,995,790
Cash and cash equivalents at the beginning of the period		<u>99,525,454</u>	<u>8,373,093</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>41,013,960</u>	<u>111,368,883</u>
Cash and cash equivalents comprise of the following amounts:			
Bank balances		2,591,170	4,962,796
Due from an Islamic bank		10,001,944	-
Murabaha receivables with original maturity of 90 days or less		28,420,846	106,406,087
		<u>41,013,960</u>	<u>111,368,883</u>
Non-cash financing activity			
Acquisition of joint venture by issuing share capital	6	<u>26,525,199</u>	<u>-</u>

The attached explanatory notes 1 to 9 form part of these interim condensed financial statements

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

INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2010 (Unaudited)

	<i>Share capital US\$</i>	<i>Statutory reserve US\$</i>	<i>Accumulated losses US\$</i>	<i>Foreign currency translation reserve US\$</i>	<i>Total US\$</i>
At 1 January 2010	125,000,000	91,612	(7,070,063)	-	118,021,549
Issue of shares (note 6)	26,525,199	-	-	-	26,525,199
Foreign currency translation adjustment	-	-	-	(20,603)	(20,603)
Profit for the period	-	-	1,796,194	-	1,796,194
At 30 September 2010	151,525,199	91,612	(5,273,869)	(20,603)	146,322,339
At 1 January 2009	12,500,000	91,612	(2,604,656)	-	9,986,956
Issue of shares	112,500,000	-	-	-	112,500,000
Loss for the period	-	-	(3,584,597)	-	(3,584,597)
At 30 September 2009	125,000,000	91,612	(6,189,253)	-	118,902,359

The attached explanatory notes 1 to 9 form part of these interim condensed financial statements

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

INTERIM STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUNDS

For the nine-month period ended 30 September 2010 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	2010	2009
	US\$	US\$
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the period	77,137	75,956
Zakah due from the Bank for the period	2,361	-
Non-Islamic income	-	1,181
Total sources of funds during the period	79,498	77,137
Uses of zakah and charity funds		
Distribution to charities	79,427	-
Total uses of zakah and charity funds during the period	79,427	-
Undistributed zakah and charity funds at end of the period	71	77,137

The attached explanatory notes 1 to 9 form part of these interim condensed financial statements

At 30 September 2010 (Unaudited)

1 INCORPORATION AND ACTIVITIES

Capinnova Investment Bank B.S.C. (c) [the Bank] started its operations effective 14 January 2009. The Bank took the commercial registration of Al Khaleej Islamic Investment Bank which was registered 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 name of Bank was changed to Capinnova Investment Bank B.S.C. (c) as approved through a resolution of Board of Directors dated 8 September 2008. The Bank operates under an Islamic wholesale banking licence issued by the Central Bank of Bahrain [the CBB].

The Bank's registered office is Floor 38, West Tower, 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 interim condensed financial statements were authorised for issue by a resolution of the Board of Directors on 10 November 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed financial statements for the nine-month period ended 30 September 2010 have been prepared in accordance with the guidance given by International Accounting Standard 34 "Interim Financial Reporting". The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements prepared in accordance with Financial and Accounting Standards [FAS] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI] as at 31 December 2009. In addition, results for the nine-month period ended 30 September 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements, for the year ended 31 December 2009, which were prepared in accordance with FAS issued by AAOIFI, the Shari'a Rules and Principles, in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. For matters which are not covered by AAOIFI standards, including "Interim Financial Reporting", the Bank uses the International Financial Reporting Standards [IFRS]. However, during the period, the Bank has adopted the following new FAS issued by the AAOIFI and new accounting policies for the period beginning on 1 January 2010:

Financial Accounting Standard No. 24 - Investments in Associates

FAS 24 sets out the accounting principles for recognising, measuring, presenting and disclosing the investments in associate entities made by an Islamic financial institution. The adoption of this standard is effective for financial periods commencing on or after 1 January 2010.

Investments in associate and joint venture

Associate

The Bank's investment in its associate is accounted for using the equity method. An associate is an entity in which the Bank has significant influence. Significant influence is presumed to exist if the Bank holds 20% or more of the voting rights in an entity. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Bank's share of net assets of the associate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associate and joint venture (continued)

Associate (continued)

The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of income. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Upon loss of significant influence over the associate, the Bank measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Joint venture

The Bank has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Bank recognises its interest in the joint venture using the equity method. Under the equity method, the interest in joint venture is carried in the balance sheet at cost plus post acquisition changes in the Bank's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its joint venture. The Bank determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the statement of income.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Bank measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the cost of acquisition over the Bank's share of the fair value of the net identifiable assets of the acquired associate or joint venture at the date of the acquisition. Any excess, at the date of acquisition, of the Bank's share in the fair value of the net identifiable assets acquired over the cost of the acquisition is recognised as negative goodwill. Negative goodwill arising on an acquisition is recognised immediately in the statement of income.

Zakah

Zakah is calculated on the zakah base of the Bank in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net assets method. Zakah is paid by the Bank based on statutory reserve, other reserves and retained earning balances at the beginning of the year. In accordance with the decision of the Board of Directors of the Bank and Parent the responsibility of payment of zakah on share capital of the Bank is on the shareholders of the Bank.

3 DUE FROM AN ISLAMIC BANK

The amount represents a Wakala deposit with an Islamic bank maturing on 27 October 2010.

4 INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

Associate

Effective 1 January 2010, the Bank acquired 36.36% equity stake in EBLA Computer Consultancy K.S.C.C. [EBLA], a company incorporated in Kuwait and engaged in computer consultancy and trading activities.

Joint venture

Effective 1 January 2010, the Bank acquired 50% equity stake in Sakana Holistic Housing Solutions B.S.C. (c) [Sakana] from its Parent by way of issuing its 26,525,199 shares of US\$ 1 each (note 6). Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing. At the date of acquisition, excess of the Bank's share of the net fair value of the Sakana's identifiable assets and liabilities over the cost amounted to US\$ 1,638,011 was recognised in the interim statement of income.

The following tables illustrate summarised financial information of the Bank's interest in these entities:

	<i>Unaudited</i> 30 September <i>2010</i> US\$
<i>Carrying amount of investment in associate and joint venture</i>	
Acquisition of associate and joint venture	48,285,563
Share of results of associate and joint venture	2,453,653
Dividend from an associate	(1,888,426)
Foreign currency translation adjustment	(20,603)
	48,830,187

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

4 INVESTMENTS IN ASSOCIATE AND JOINT VENTURE (continued)

	<i>Unaudited</i> 30 September 2010 US\$
<i>Share of associate and joint venture balance sheet</i>	
Current and non-current assets	73,287,237
Current and non-current liabilities	(34,083,863)
Net assets	39,203,374
<i>Share of associated and joint venture revenues</i>	
Revenue	20,672,575
Commitments and contingent liabilities	4,038,910

5 OTHER LIABILITIES

Other liabilities include an advance income of US\$ 987 thousand on Murabaha facility. This advance income will be amortised over the period of the Murabaha facility.

6 SHARE CAPITAL

	<i>Unaudited</i> 30 September 2010 US\$	<i>Audited</i> 31 December 2009 US\$
Authorised		
Ordinary shares of US\$ 1 each (31 December 2009: US\$ 1 each)	500,000,000	500,000,000
Issued and fully paid up		
At beginning of the period / year		
Ordinary shares of US\$ 1 each (31 December 2009: US\$ 1 each)	125,000,000	12,500,000
Issued during the period / year		
Ordinary shares of US\$ 1 each	26,525,199	112,500,000
At end of the period / year		
Ordinary shares of US\$ 1 each (31 December 2009: US\$ 1 each)	151,525,199	125,000,000

During the nine-month period ended 30 September 2010, the Bank increased its issued and fully paid up share capital from US\$ 125,000,000 to US\$ 151,525,199 by issuing shares as a consideration to the Parent for the acquisition of investment in joint venture (note 4). The increase was approved by the Central Bank of Bahrain on 6 January 2010.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

7 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 the Middle East and

Segment assets

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
30 September 2010 (unaudited)			
Bank balances	2,591,170	-	2,591,170
Due from an Islamic bank	10,001,944	-	10,001,944
Murabaha receivables	1,629,000	68,536,621	70,165,621
Istisna'a contract	15,330,185	-	15,330,185
Investments in associate and joint venture	48,830,187	-	48,830,187
Equipment	878,584	-	878,584
Other assets	423,000	-	423,000
	<u>79,684,070</u>	<u>68,536,621</u>	<u>148,220,691</u>

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
31 December 2009 (audited)			
Bank balances	5,998,355	-	5,998,355
Murabaha receivables	1,527,759	96,179,618	97,707,377
Istisna'a contract	8,192,868	-	8,192,868
Mudaraba investment	5,000,000	-	5,000,000
Equipment	1,115,913	-	1,115,913
Other assets	220,676	-	220,676
	<u>22,055,571</u>	<u>96,179,618</u>	<u>118,235,189</u>

Segment revenue

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
30 September 2010 (unaudited)			
Profit on Murabaha receivables	371,232	1,098,051	1,469,283
Profit from Istisna'a contract	1,369,691	-	1,369,691
Profit on Mudaraba investment	122,188	-	122,188
Profit on balance due from an Islamic bank	105,972	-	105,972
Share of results of associate and joint venture	2,453,653	-	2,453,653
Gain on acquisition of joint venture	1,638,011	-	1,638,011
Other income	3,256	-	3,256
	<u>6,064,003</u>	<u>1,098,051</u>	<u>7,162,054</u>

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
30 September 2009 (unaudited)			
Profit on Murabaha receivables	1,138,085	498,992	1,637,077
Profit from Istisna'a contract	199,196	-	199,196
Profit on Mudaraba investment	32,878	-	32,878
Fee and commission income	385,353	-	385,353
	<u>1,755,512</u>	<u>498,992</u>	<u>2,254,504</u>

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2010 (Unaudited)

8 RELATED PARTY TRANSACTIONS

Related parties comprise of the 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.

	<i>Unaudited</i> 30 September 2010 US\$	<i>Audited</i> 31 December 2009 US\$
Balance sheet		
Murabaha receivables*	49,354,525	93,527,098
Bank balances with the Parent	2,591,170	5,982,147
	51,945,695	99,509,245

* Murabaha receivables have been guaranteed by the Parent.

	<i>(Unaudited)</i> <i>Nine months ended</i> <i>30 September</i>	
	2010 US\$	2009 US\$
Statement of income		
Profit on Murabaha receivables	859,324	528,856

Compensation of the key management personnel

	<i>(Unaudited)</i> <i>Nine months ended</i> <i>30 September</i>	
	2010 US\$	2009 US\$
Short term employee benefits	1,456,611	981,780

9 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:

	<i>Unaudited</i> 30 September 2010 US\$	<i>Audited</i> 31 December 2009 US\$
Within one year	259,403	259,545
After one year but not more than five years	238,082	432,102
	497,485	691,647
Credit related commitment	5,078,756	10,846,382