

**Capinnova Investment Bank B.S.C. (c)**  
**INTERIM CONDENSED FINANCIAL STATEMENTS**  
**31 MARCH 2011 (UNAUDITED)**

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

### *Introduction*

We have reviewed the accompanying interim statement of financial position of Capinnova Investment Bank B.S.C. (c) [the Bank] as of 31 March 2011, and the related interim statements of income, cash flows, changes in owner's equity, sources and uses of zakah and charity funds for the three-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 the accounting policies disclosed in 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.



4 May 2011  
Manama, Kingdom of Bahrain

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

INTERIM STATEMENT OF FINANCIAL POSITION

31 March 2011

	<i>Note</i>	<i>Unaudited</i> <b>31 March</b> <b>2011</b> <b>US\$</b>	<i>Audited</i> <b>31 December</b> <b>2010</b> <b>US\$</b>
<b>ASSETS</b>			
Bank balances		976,848	966,486
Due from bank	3	10,011,181	10,016,041
Murabaha receivables		70,917,647	70,320,608
Istisna'a contract		17,844,769	16,497,685
Investments in associate and joint venture	4	43,912,772	47,368,883
Equipment		724,403	796,308
Other assets	5	2,344,110	437,288
<b>TOTAL ASSETS</b>		<b>146,731,730</b>	<b>146,403,299</b>
<b>LIABILITIES AND OWNER'S EQUITY</b>			
<b>Liabilities</b>			
Other liabilities	6	853,160	1,594,308
<b>Total liabilities</b>		<b>853,160</b>	<b>1,594,308</b>
<b>Owner's Equity</b>			
Share capital		151,525,199	151,525,199
Statutory reserve		91,612	91,612
Accumulated losses		(6,068,910)	(7,273,487)
Foreign currency translation reserve		330,669	465,667
<b>Total owner's equity</b>		<b>145,878,570</b>	<b>144,808,991</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>146,731,730</b>	<b>146,403,299</b>

A. Karim Bucheery  
Chairman

Jamal Hijres  
Chief Executive Officer

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 INCOME

For the three-month period ended 31 March 2011 (Unaudited)

	Note	<i>Three months ended 31 March</i>	
		<b>2011</b>	<b>2010</b>
		<b>US\$</b>	<b>US\$</b>
Profit on Murabaha receivables		<b>770,764</b>	526,058
Profit from Istisna'a contract		<b>516,189</b>	361,355
Profit on Mudaraba investment		-	50,764
Profit on balance due from bank		<b>43,750</b>	17,014
Share of results of associate and joint venture	4	<b>957,914</b>	776,172
Gain on acquisition of joint venture	4	-	1,638,011
Other income		<b>12,351</b>	-
		<b>2,300,968</b>	3,369,374
Fee and commission income		<b>246,750</b>	-
		<b>2,547,718</b>	3,369,374
Staff costs		<b>(926,071)</b>	1,446,985
General and administration expenses		<b>(336,119)</b>	360,671
Depreciation		<b>(80,951)</b>	103,676
		<b>(1,343,141)</b>	1,911,332
<b>PROFIT FOR THE PERIOD</b>		<b>1,204,577</b>	1,458,042

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 three-month period ended 31 March 2011 (Unaudited)

	Note	Three months ended 31 March	
		2011 US\$	2010 US\$
<b>OPERATING ACTIVITIES</b>			
Profit for the period		1,204,577	1,458,042
Adjustments:			
Depreciation		80,951	103,676
Share of results of associate and joint venture	4	(957,914)	(776,172)
Gain on acquisition of joint venture		-	(1,638,011)
		<b>327,614</b>	<b>(852,465)</b>
Changes in:			
Murabaha receivables with original maturity of more than 90 days		(36,785,794)	1,119
Istisna'a contract		(1,347,084)	(2,851,694)
Other assets		(1,906,822)	(126,031)
Other liabilities		(741,148)	384,317
Net cash used in operating activities		<b>(40,453,234)</b>	<b>(3,444,754)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment		(9,046)	(3,748)
Acquisition of associate		-	(20,027,156)
Dividend from an associate	4	2,426,829	-
Proceeds upon distribution of capital by an associate	4	1,852,198	-
Net cash from (used in) investing activities		<b>4,269,981</b>	<b>(20,030,904)</b>
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>		<b>(36,183,253)</b>	<b>(23,475,658)</b>
Cash and cash equivalents at 1 January		59,623,166	99,525,454
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>		<b>23,439,913</b>	<b>76,049,796</b>
Cash and cash equivalents comprise of the following amounts:			
Bank balances		976,848	4,679,350
Due from bank		10,011,181	10,003,404
Murabaha receivables with original maturity of 90 days or less		12,451,884	61,367,042
		<b>23,439,913</b>	<b>76,049,796</b>
<b>Non-cash financing activity</b>			
Acquisition of joint venture by issuing share capital		-	26,525,199

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 OWNER'S EQUITY

For the three-month period ended 31 March 2011 (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 2011	151,525,199	91,612	(7,273,487)	465,667	144,808,991
Foreign currency translation adjustment	-	-	-	(134,998)	(134,998)
Profit for the period	-	-	1,204,577	-	1,204,577
<b>At 31 March 2011</b>	<b>151,525,199</b>	<b>91,612</b>	<b>(6,068,910)</b>	<b>330,669</b>	<b>145,878,570</b>
At 1 January 2010	125,000,000	91,612	(7,070,063)	-	118,021,549
Issue of shares	26,525,199	-	-	-	26,525,199
Foreign currency translation adjustment	-	-	-	9,549	9,549
Profit for the period	-	-	1,458,042	-	1,458,042
At 31 March 2010	151,525,199	91,612	(5,612,021)	9,549	146,014,339

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 three-month period ended 31 March 2011 (Unaudited)

	<i>Three months ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>US\$</i>	<i>US\$</i>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the period	-	77,137
Zakah due from the Bank for the period	-	-
Non-Islamic income	-	-
Total sources of funds during the period	-	77,137
<b>Uses of zakah and charity funds</b>		
Distribution to charities	-	-
Total uses of zakah and charity funds during the period	-	-
Undistributed zakah and charity funds at end of the period	-	77,137

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

At 31 March 2011 (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 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 4 May 2011.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The interim condensed financial statements for the three-month period ended 31 March 2011 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 as at 31 December 2010. In addition, results for the three-month period ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

### 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, except for the new and amended conceptual framework and financial accounting standards, which were prepared in accordance with the Financial Accounting Standards [FAS] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI], the Shari'a Rules, and Principles as determined by the Shari'a Supervisory Board of the Bank, 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].

### New and amended accounting standard and framework

During 2010, AAOFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which are effective as of 1 January 2011.

### *Statement of financial accounting no. 1: conceptual framework for the financial reporting by Islamic financial institutions*

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2011 (Unaudited)

**2 SIGNIFICANT ACCOUNTING POLICIES****New and amended accounting standard and framework (continued)**

*Financial Accounting Standard - 25 "Investment in Sukuk, shares and similar instruments".*

The Bank has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in Sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Bank.

**3 DUE FROM BANK**

The amount represents a Wakala deposit with an Islamic bank maturing on 7 April 2011.

**4 INVESTMENTS IN ASSOCIATE AND JOINT VENTURE****Associate**

The Bank has an equity stake of 36.36% in EBLA Computer Consultancy K.S.C.C. [EBLA], a company incorporated in Kuwait and engaged in computer consultancy and trading activities.

**Joint venture**

The Bank has an equity stake of 50% in Sakana Holistic Housing Solutions B.S.C. (c) [Sakana]. Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing.

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

	<i>Unaudited</i> <b>31 March</b> <b>2011</b> <b>US\$</b>	<i>Audited</i> <b>2010</b> <b>US\$</b>
<i>Carrying amount of investment in associate and joint venture</i>		
Acquisition of associate and joint venture	<b>48,285,563</b>	48,285,563
Share of results of associate and joint venture	<b>1,463,993</b>	506,079
Dividend from an associate	<b>(4,315,255)</b>	(1,888,426)
Foreign currency translation adjustment	<b>330,669</b>	465,667
Proceeds upon distribution of capital by an associate	<b>(1,852,198)</b>	-
	<b><u>43,912,772</u></b>	<b><u>47,368,883</u></b>
<i>Statement of financial position</i>		
Current and non-current assets	<b>55,775,255</b>	56,410,692
Current and non-current liabilities	<b>21,669,387</b>	18,983,711
Net assets	<b><u>34,105,868</u></b>	<b><u>37,426,981</u></b>
<i>Memorandum items</i>		
Commitments and contingent liabilities	<b><u>6,962,265</u></b>	<b><u>6,825,611</u></b>
	<b><u>Three months ended 31 March</u></b>	<b><u>2011</u></b>
	<b><u>US\$</u></b>	<b><u>2010</u></b>
	<b><u>US\$</u></b>	<b><u>US\$</u></b>
<i>Statement of income (Unaudited)</i>		
Revenue	<b>1,720,064</b>	1,739,031
Total expenses	<b>762,150</b>	962,859
Net profit	<b><u>957,914</u></b>	<b><u>776,172</u></b>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2011 (Unaudited)

**5 OTHER ASSETS**

Other assets include an amount of US\$ 1,852 thousand (31 December 2010: nil) relating to distribution of capital by an associate.

**6 OTHER LIABILITIES**

Other liabilities include an advance income of US\$ 494 thousand (31 December 2010: US\$ 987 thousand) on Murabaha facility. This advance income will be amortised over the period of the Murabaha facility.

**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 Europe.

**Segment assets**

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
<b>31 March 2011 (unaudited)</b>			
Bank balances	976,848	-	976,848
Due from bank	10,011,181	-	10,011,181
Murabaha receivables	54,467,646	16,450,001	70,917,647
Istisna'a contract	17,844,769	-	17,844,769
Investments in associate and joint venture	43,912,772	-	43,912,772
Equipment	724,403	-	724,403
Other assets	2,344,110	-	2,344,110
	<u>130,281,729</u>	<u>16,450,001</u>	<u>146,731,730</u>

\* Represents an exposure to Cayman Islands company collateralised by a real estate investment in Makkah, Kingdom of Saudi Arabia.

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
<b>31 December 2010 (audited)</b>			
Bank balances	966,486	-	966,486
Due from bank	10,016,041	-	10,016,041
Murabaha receivables	53,870,607	16,450,001	70,320,608
Istisna'a contract	16,497,685	-	16,497,685
Investments in associate and joint venture	47,368,883	-	47,368,883
Equipment	796,308	-	796,308
Other assets	437,288	-	437,288
	<u>129,953,298</u>	<u>16,450,001</u>	<u>146,403,299</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2011 (Unaudited)

7 SEGMENTAL INFORMATION (continued)

Segment revenue

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
<b>31 March 2011 (unaudited)</b>			
Profit on Murabaha receivables	236,139	534,625	770,764
Profit from Istisna'a contract	516,189	-	516,189
Profit on balance due from an Islamic bank	43,750	-	43,750
Share of results of associate and joint venture	957,914	-	957,914
Other income	12,351	-	12,351
Fee and commission income	-	246,750	246,750
	<u>1,766,343</u>	<u>781,375</u>	<u>2,547,718</u>
	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Total US\$</i>
<b>31 March 2010 (unaudited)</b>			
Profit on Murabaha receivables	131,890	394,168	526,058
Profit from Istisna'a contract	361,355	-	361,355
Profit on Mudaraba investments	50,764	-	50,764
Profit on balance due from an Islamic bank	17,014	-	17,014
Share of results of associate and joint venture	776,172	-	776,172
Gain on acquisition of joint venture	1,638,011	-	1,638,011
	<u>2,975,206</u>	<u>394,168</u>	<u>3,369,374</u>

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 31 March 2011 US\$</i>	<i>Audited 31 December 2010 US\$</i>
<b>Balance sheet</b>		
Murabaha receivables with the Parent	54,289,437	52,130,607
Bank balances with the Parent	976,848	965,690
	<u>55,266,285</u>	<u>53,096,297</u>
	<i>Three months ended 31 March 2011 US\$</i>	<i>2010 US\$</i>
<b>Statement of income</b>		
Profit on Murabaha receivables	236,139	314,592
	<u>236,139</u>	<u>314,592</u>
<b>Compensation of the key management personnel</b>		
	<i>Three months ended 31 March 2011 US\$</i>	<i>2010 US\$</i>
Short term employee benefits	298,191	482,117
	<u>298,191</u>	<u>482,117</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2011 (Unaudited)

**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> <b>31 March</b> <b>2011</b> <b>US\$</b>	<i>Audited</i> <b>31 December</b> <b>2010</b> <b>US\$</b>
Within one year	<b>259,403</b>	259,545
After one year but not more than five years	<b>108,736</b>	172,557
	<b>368,139</b>	432,102
Credit related commitment	<b>3,579,335</b>	4,410,229