



Arcapita Bank B.S.C.(c)

CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARCAPITA BANK B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Arcapita Bank B.S.C. (c) [the "Bank"] and its subsidiaries [together the "Group"] which comprise the consolidated balance sheet as at 30 June 2011 and the consolidated statements of income, changes in equity, cash flows, and sources and uses of charity funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards, and for such internal control as Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with the Islamic Shari'ah rules and principles.

Auditor's Responsibility

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ARCAPITA BANK B.S.C. (c)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2011 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2011 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 2 of the CBB rulebook) and directives, nor of the memorandum and articles of association of the Bank have occurred during the year ended 30 June 2011 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license and has also complied with the Islamic Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Group.

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

14 August 2011
Manama, Kingdom of Bahrain

Consolidated Statement of Income

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Year ended 30 Jun 2011 <i>US\$ '000</i>	Year ended 30 Jun 2010 <i>US\$ '000</i>
Recurring and other income		108,372	91,504
Management fees		95,096	74,996
Fair value adjustments		48,020	(153,389)
Investment banking income (loss)		7,830	(78,198)
Foreign exchange gains (loss)		138,940	(169,893)
TOTAL INCOME (LOSS)	4	398,258	(234,980)
Relating to financial and other institutions		(71,290)	(95,868)
Relating to unrestricted investment accounts		(6,542)	(3,604)
Relating to medium-term financing		(19,546)	(18,385)
Net funding cost		(97,378)	(117,857)
NET OPERATING INCOME (LOSS)		300,880	(352,837)
Staff compensation and benefits		(74,491)	(77,871)
General and administration expenses		(44,767)	(43,194)
Headquarter building expenses		(30,470)	(17,257)
		(149,728)	(138,322)
NET INCOME (LOSS) BEFORE ALLOWANCES		151,152	(491,159)
Allowance for doubtful receivable	8(d)	(100,989)	(68,230)
NET INCOME (LOSS) FOR THE YEAR		50,163	(559,389)

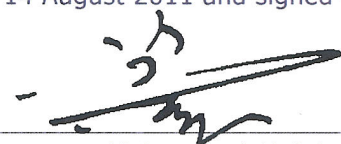
The attached Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Balance Sheet

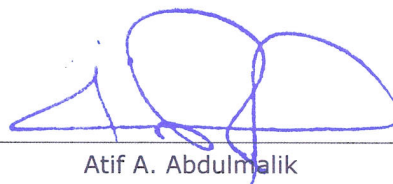
AT 30 JUNE 2011

	Notes	30 Jun 2011 US\$ '000	30 Jun 2010 US\$ '000
ASSETS			
Cash and short-term funds	7	132,050	143,334
Receivables	8	1,132,543	1,073,959
Investments	9	2,365,475	2,168,127
Other assets	10	88,182	71,716
TOTAL ASSETS		3,718,250	3,457,136
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Due to financial and other institutions	11	1,076,717	1,084,104
Medium-term financing	12	1,098,637	1,094,031
Other liabilities	14	61,927	36,372
Total liabilities excluding unrestricted investment accounts		2,237,281	2,214,507
Unrestricted investment accounts	15	363,431	182,469
Total liabilities including unrestricted investment accounts		2,600,712	2,396,976
EQUITY			
Share capital and premium	16	1,008,179	1,077,262
Reserves	17	29,816	(17,102)
Share subscription pending allotment	18	79,543	-
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		3,718,250	3,457,136

The consolidated financial statements were authorized for issue by the Board of Directors on 14 August 2011 and signed on their behalf by:



Mohammed Abdulaziz Aljomaih
Chairman



Atif A. Abdulmalik
Chief Executive Officer and Director

The attached Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

	Share Capital and Premium			Reserves					Total equity
	Share capital	Share premium	Unallocated shares under Employee Incentive Program	Total share capital & premium	Statutory	Retained earnings/ Accumulated deficit	Total reserves	Share subscription pending allotment	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 July 2010	311,323	954,175	(188,236)	1,077,262	98,492	(115,594)	(17,102)	-	1,060,160
Net income for the year	-	-	-	-	-	50,163	50,163	-	50,163
Total comprehensive income	-	-	-	-	-	50,163	50,163	-	50,163
Share subscription received	-	-	-	-	-	-	-	79,543	79,543
Purchase of treasury shares	(66)	(188)	-	(254)	-	-	-	-	(254)
Share-based compensation reversal	-	-	-	-	-	(1,492)	(1,492)	-	(1,492)
Net movement in unallocated employee shares (Note 16)	-	-	(68,829)	(68,829)	-	-	-	-	(68,829)
	(66)	(188)	(68,829)	(69,083)	-	(1,492)	(1,492)	79,543	8,968
Appropriations (Note 17)	-	-	-	-	-	(1,753)	(1,753)	-	(1,753)
Transfer to statutory reserve	-	-	-	-	5,016	(5,016)	-	-	-
Appropriations/transfers	-	-	-	-	5,016	(6,769)	(1,753)	-	(1,753)
Balance at 30 June 2011	311,257	953,987	(257,065)	1,008,179	103,508	(73,692)	29,816	79,543	1,117,538

The attached Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (Continued)

	Share Capital and Premium				Reserves				Total equity
	Share capital	Share premium	Unallocated shares under Employee Incentive Program	Total share capital & premium	Statutory	Retained earnings/ Accumulated deficit	Total reserves	Share subscription pending allotment	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 1 July 2009	282,243	765,155	(168,221)	879,177	98,492	435,717	534,209	185,209	1,598,595
Net loss for the year	-	-	-	-	-	(559,389)	(559,389)	-	(559,389)
Total comprehensive loss	-	-	-	-	-	(559,389)	(559,389)	-	(559,389)
Share subscription received	-	-	-	-	-	-	-	32,891	32,891
Share issue	29,080	189,020	-	218,100	-	-	-	(218,100)	-
Share-based compensation expense	-	-	-	-	-	8,078	8,078	-	8,078
Net movement in unallocated employee shares	-	-	(20,015)	(20,015)	-	-	-	-	(20,015)
	29,080	189,020	(20,015)	198,085	-	8,078	8,078	(185,209)	20,954
Balance at 30 June 2010	311,323	954,175	(188,236)	1,077,262	98,492	(115,594)	(17,102)	-	1,060,160

The attached Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

	Year ended 30 Jun 2011 <i>US\$ '000</i>	Year ended 30 Jun 2010 <i>US\$ '000</i>
OPERATING ACTIVITIES		
Net income (loss) for the year	50,163	(559,389)
Adjustments for non-cash items:		
Share-based compensation (reversal) expense	(1,492)	8,078
Allowance for doubtful receivable	100,989	68,230
Changes in fair value of investments carried at fair value through statement of income	(48,020)	153,389
Operating profit (loss) before changes in operating assets and liabilities	101,640	(329,692)
Changes in operating assets and liabilities:		
Receivables	(228,402)	400,277
Investments	(149,328)	241,375
Due to financial and other institutions	(7,387)	(254,833)
Other assets	(16,466)	(16,000)
Other liabilities	28,408	(72,056)
Net cash used in operating activities	(271,535)	(30,929)
FINANCING ACTIVITIES		
Share subscription received	79,543	32,891
Movement in unrestricted investment accounts	180,962	(49,827)
Repurchase of shares	(254)	-
Net cash from (used in) financing activities	260,251	(16,936)
Net movement in cash and cash equivalents	(11,284)	(47,865)
Cash and cash equivalents at beginning of year	143,334	191,199
Cash and cash equivalents at end of year	132,050	143,334
Cash and cash equivalents comprise:		
Cash and balances with banks	121,204	54,291
Short-term deposits	10,846	66,606
Transitory funds	-	22,437
	132,050	143,334

The attached Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Sources and Uses of Charity Funds

FOR THE YEAR ENDED 30 JUNE 2011

	Year ended 30 Jun 2011 <i>US\$ '000</i>	Year ended 30 Jun 2010 <i>US\$ '000</i>
Undistributed charity funds at beginning of year	1,498	1,498
Funds utilized for charity	(1,498)	-
Contribution by the Group	1,003	-
Undistributed charity funds at end of year	1,003	1,498

The attached Notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

30 JUNE 2011

1. CORPORATE INFORMATION

a) Incorporation

Arcapita Bank B.S.C. (c) (the "Bank") was incorporated in November 1996, as a Bahrain Joint Stock Company (closed) under commercial registration number 36403. Its registered office is based in the Kingdom of Bahrain. The Bank operates under an Islamic wholesale banking licence issued by the Central Bank of Bahrain (the "CBB").

b) Activities

The activities of the Bank and its wholly owned subsidiaries (together referred to as the "Group") include investing on its own account and providing investment banking services in conformity with Islamic Shari'ah rules and principles.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and are in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, and the CBB's regulations (as contained in volume II of the CBB rulebook) and directives. These consolidated financial statements are presented in US dollars, which is the functional currency of the Group. All values are rounded to US dollar thousands unless otherwise indicated.

A statement of comprehensive income is not presented as the Group does not have any other items of income and expenses that are not recognized in the consolidated statement of income.

Following is a summary of the significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous financial year, except as noted below.

New standard issued and adopted early

- FAS 25 - Investment in sukuk, shares and similar instruments was issued by AAOIFI and is required to be applied on fiscal years commencing on or after 1 January 2011. The Group early adopted this standard during the current financial period as permitted by the accounting standard.

FAS 25 relates to recognition, measurement, presentation and disclosure of investments in sukuk, shares and similar instruments that exhibit characteristics of debt or equity instruments. Early adoption of the standard has no impact on the Group's results for the year ended, or financial position as at 30 June 2011.

Amended standards and new interpretations

Following are the relevant amended IFRS, new International Financial Reporting Interpretations Committee (“IFRIC”) interpretations and FAS that have been adopted by the Group during the year. Adoption of these revised standards and interpretations did not have any material effect on the consolidated financial statements of the Group.

- IFRS 2 Amendment – Group cash-settled share-based payment transactions, 1 January 2010;
- 2009 Annual improvements to IFRS, 1 January 2010;
- IAS 32 Amendment – Classification of rights issues, 1 February 2010;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments, 1 July 2010;
- 2010 Annual improvements to IFRS (IFRS 3 and IAS 27), 1 July 2010;
- FAS 23 – Consolidation, 1 January 2010;
- FAS 24 – Investment in Associate; 1 January 2010.

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS, IFRIC interpretations and FAS that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates:

- IAS 24 (Revised) – Related party disclosures, 1 January 2011;
- IFRIC 14 Amendment – Prepayment of a minimum funding requirement, 1 January 2011;
- IFRS 9 - Financial instruments, 1 January 2015 (tentative);
- 2010 Annual Improvements to IFRS (IFRS 1 and IFRS 7), 1 January 2011;
- IFRS 10 – Consolidated financial statements, 1 January 2013;
- IFRS 11 - Joint Agreements, 1 January 2013;
- IFRS 12 – Disclosure of interest in other entities, 1 January 2013;
- AAOIFI Conceptual Framework (Update), 1 January 2011;
- IFRS 13 – Fair value measurement, 1 January 2013;
- IAS 1 Amendment: Presentation of financial statements, 1 July 2012;
- IFRS 7 Amendment – Financial instruments: Disclosures, 1 July 2013.

Management is considering the implications of these standards and amendments (including their impact on the Group’s financial position and results) and the timing of their adoption by the Group.

b) Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for the re-measurement of investments at fair value.

c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of all subsidiaries are included in the consolidated financial statements from the effective date of formation or acquisition or transfer of control. All inter-company balances, transactions, income and expenses have been eliminated in full on consolidation.

d) Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires judgement and estimates that affect the amounts reported in the consolidated financial statements. The most significant use of judgement and estimates are as follows:

Going concern

The Board of Directors and management have made an assessment of the Bank's ability to continue as a going concern and are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future. Furthermore, the Board of Directors and management are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Allowance for receivable

The Group reviews its individually significant receivables at each balance sheet date to assess whether an allowance should be made for recoverability. In determining this allowance, judgement by management is required in the estimation of the amount and timings of future cash flows. Such estimates are based on assumptions of a number of factors and actual results may differ, resulting in future changes to the allowance.

Fair value of unlisted investments

Where the fair values of the Group's investment portfolio cannot be derived from an active market, they are determined using a variety of valuation techniques as detailed in Note 2(h). These techniques rely on market observable data where possible. Judgement by management is required to establish fair values through the use of appropriate valuation models. The judgements include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Share-based compensation expenses

In estimating share-based compensation expenses, judgement is exercised in determining the probability of employees who would complete the required share vesting period.

Liquidity

The Group monitors its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in Note 23 (c) (i). The table requires the exercise of judgement in determining the maturity of assets and liabilities.

e) Revenue recognition

Investment banking income

Investment banking income includes acquisition fees, placement fees, brokerage and exit income.

Income from acquisitions consists of fees earned by the Group in cash or in kind, during the acquisition, for rendering services including arrangement of acquisition financing, merger and acquisition advice associated with deal execution and equity underwriting.

Income from placement activities is recognized upon acceptance of signed Share Purchase Agreements ("SPAs") by the Group. Other fees are recognized when earned or on a percentage of completion basis.

Exit income comprises capital gains or losses on complete or partial disposal of investments, representing the proceeds returned by an investment in excess of its carrying value, and performance fees representing the fee earned by the Group for exceeding pre-agreed hurdle rates. Exit income is recognized when a binding and definitive sale agreement or contract is signed.

Management fees

Management fees represent recurring fees earned by the Group for rendering management and administrative services to investee companies and investment holding companies through which clients participate in the Group's investment products. Management fees are recognized as and when services are rendered.

Income from investee companies

This comprises recurring income earned on Islamic financing facilities provided to investee companies, which are recognized on a time-apportioned basis. Recognition is suspended if the Group believes that the recovery of these amounts may be doubtful.

Yield from investments

This comprises recurring income earned from various real estate and infrastructure investments held by the Group, which are recognized on an accrual basis. Recognition is suspended if the Group believes that the recovery of these amounts may be doubtful.

Profits from financial institutions

Profit from sales transactions ("Murabaha") is recognized when, at the commencement of the transaction, the ultimate income is both contractually determinable and quantifiable. Such income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with counterparties.

f) Short term deposits

Short term deposits comprises mainly commodity Murabaha receivables, which are trade transaction agreements stated net of deferred profit; and investment in Mudaraba, which are profit-sharing agreements, stated at cost.

g) Receivables

Receivables arise largely from subscriptions by clients to the Group's various investment products, fees earned in respect of the Group's management services, and proceeds due from investment exits that have been contracted but not yet received.

Subscription receivables are recognized when the obligation is established, i.e. when an SPA has been signed and accepted.

Murabaha with investee companies arise largely as a result of the Group extending Islamic financing facilities in the form of commodity Murabaha and other Islamically acceptable financing arrangements to investee companies. These are stated net of deferred profits and allowance for doubtful receivable, if any.

Notes receivable relate to amounts receivable from employees' participation in the Employee Share Incentive Program and the Investment Incentive Program and are stated at cost less amounts settled.

The Group reviews its receivables at each balance sheet date to assess if an allowance needs to be made.

h) Investments

Investments comprise the Group's retained share in private equity, infrastructure, real estate and venture capital investments. These also include investments available for placement with clients. The venture capital line of business has been aggregated within private equity investments due to its relative size.

Investments are classified as "fair value through statement of income".

Initial Recognition

Investments are initially recognized at cost, being the fair value of the consideration paid.

Re-measurement to fair value

Following initial recognition, investments are re-measured to fair value. The unrealized gains and losses arising from the re-measurement to fair value are included in the consolidated statement of income. The determination of fair value is made for each investment individually in accordance with the valuation policies set out below.

Valuations

Private equity, infrastructure and venture capital investments

The Group establishes fair value by using an appropriate valuation technique. Valuation techniques include using current market price for listed equity instruments, reference to recent arm's length market transactions between knowledgeable willing parties, if

available, reference to recent valuation multiples of other comparable entities that are substantially the same and which include earnings before interest, tax, depreciation and amortization ("EBITDA") multiples and/or the use of discounted cash flow valuation models.

Real estate investments

Real estate investments are re-measured based on the capitalization of future cash streams of the underlying real estate assets using prevailing capitalization rates or an appropriate discount rate for similar properties in the same geographical area.

i) Impairment

An assessment is made, at each balance sheet date, for all financial assets other than those classified as "fair value through statement of income", to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow.

j) Due to financial and other institutions

These include liabilities under Murabaha contracts with financial and other institutions and are carried at fair value of consideration received plus accrued profit less amounts settled.

Funding cost relating to financial and other institutions is recognized on a time-apportioned basis over the period of contract.

k) Property and equipment

These are recorded at cost and comprise property and equipment. Depreciation is provided on a straight line basis on all property and equipment. The expense is included under general and administration expenses.

l) Medium-term financing

Medium-term financing includes facilities on Murabaha-based contracts and is carried at fair value of consideration received net of transaction cost plus accrued profit less amounts settled.

Funding cost relating to medium-term financing is recognized on a time-apportioned basis over the period of the contract.

m) Unrestricted investment accounts

All unrestricted investment accounts are carried at fair value of consideration received plus accrued profits less amounts settled.

Income to unrestricted investment account holders is allocated on the basis of their daily balances in proportion to shareholders' balances.

n) Fiduciary assets

The Group's clients participate in private equity, real estate, infrastructure and venture capital investments. Assets held in trust or in a fiduciary capacity in connection with these investments are not treated as assets of the Group and, accordingly, are not included in the consolidated balance sheet.

o) Foreign currencies

Transactions in foreign currencies are booked in US dollars using the foreign exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any net gains or losses are disclosed on the face of the consolidated statement of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, transitory funds and short-term deposits with original maturities of less than three months.

q) Employee end of service benefits

Provision is made for amounts payable to employees as end of service benefits, in accordance with prevailing rules and regulations in the various jurisdictions in which the Group operates.

r) Share-based payment transactions

Eligible employees are entitled to purchase shares of the employee share incentive program in partial consideration for services rendered and are classified as equity-settled share-based payment transactions under IFRS 2.

The expense of the equity-settled share-based payment transactions is recognized in the consolidated statement of income over the vesting period with a corresponding increase in equity, based on the best estimate of the number of equity instruments expected to vest. The income statement charge or credit for a period is recorded in "staff compensation and benefits" and represents the movement in cumulative expenses recognized as at the beginning and end of the year.

s) Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated statement of income under "general and administration expenses".

t) Provisions

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

u) De-recognition of financial instruments

A financial asset (in whole or part) is de-recognized either when the Group has transferred substantially all the risk and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expired.

v) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

w) Segment reporting

The Group's segmental reporting is based on the following operating segments: private equity, infrastructure and real estate investment.

x) Forward exchange contracts (Wa'ad)

The Group uses Shari'ah compliant forward exchange contracts (Wa'ad) to manage its foreign exchange exposures. These contacts are recorded at fair value and carried as an asset when their fair value is positive and as liabilities when their fair value is negative.

3. SUBSIDIARY COMPANIES

The following are the principal subsidiaries of the Bank and are consolidated in these financial statements:

Subsidiary	Ownership	Year of incorporation	Country of incorporation
<p>Arcapita Inc. Its main activities are to source investment opportunities in the United States and to monitor the performance of the acquired companies on behalf of the Bank and investors.</p>	100%	1997	United States
<p>Arcapita Investment Management Limited (“AIML”) AIML's main activity is to maintain and manage the books of account of the investment vehicle companies.</p>	100%	1997	Cayman Islands
<p>Arcapita Investment Holdings Limited (“AIHL”) AIHL's main purpose is to hold the Bank's shares in investments.</p>	100%	1998	Cayman Islands
<p>Arcapita Structured Finance Limited (“ASFL”) ASFL's main activity is to structure Islamically acceptable financing facilities and to undertake post-acquisition asset management.</p>	100%	1998	Cayman Islands
<p>Arcapita Investment Funding Limited (“AIFL”) AIFL is the holding company of ASFL; its main activities are to source real estate and infrastructure investments and sponsor other investment banking activities.</p>	100%	1998	Cayman Islands
<p>Arcapita Limited Its main activities are to source investment opportunities in Europe and the United Kingdom and to monitor the performance of the acquired companies on behalf of the Bank and investors.</p>	100%	2003	United Kingdom
<p>Arcapita Pte Limited Its main activities are to source investment opportunities in Asia and to monitor the performance of the acquired companies on behalf of the Bank and investors.</p>	100%	2007	Singapore
<p>Arcapita Hong Kong Limited Its main activities are to provide advisory services to group companies in relation to the Bank's investments and fund management operations in Asia.</p>	100%	2011	Hong Kong

4. TOTAL INCOME (LOSS)

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Foreign exchange gain (loss)	138,940	(169,893)
Management fees (Note 4(a))	95,096	74,996
Income from investee companies	71,846	72,066
Fair value adjustments	48,020	(153,389)
Yield from investments	35,616	36,380
Acquisition and placement fees	19,426	2,170
Capital loss on exits	(11,596)	(80,368)
Loss on Istisna contract	-	(17,000)
Other	910	58
	398,258	(234,980)

a) Management fees

Included in management fees is US\$48.3 million (2010: US\$40.6 million) representing fee income earned in a trust or fiduciary capacity.

5. RECURRING INCOME

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Management fees	95,096	74,996
Income from investee companies	71,846	72,066
Yield from investments	35,616	36,380
	202,558	183,442

Recurring income represents income which, in management's opinion, would not be materially impacted by the cyclical nature of the investment banking industry.

6. SHARE-BASED PAYMENT PLANS

Employee Share Incentive Program

The Group Employee Share Incentive Program (the 'Plan') was established in 1999 and modified in 2006. The Plan allows employees, selected by the Plan Administrator, to purchase an allocated number of Plan shares either indirectly through a deferral plan or through offshore trusts which hold the Plan shares for the benefit of the employees. Each Plan share is deemed an economic equivalent of a Bank share. On completion of six years of employment from the grant date (hire date for the initial allocation), the employee may convert 10 percent of the Plan shares to Bank shares each year; the option to convert accelerates to 20 percent a year when the employee completes 10 years of service with the Group, so long as such shares are paid for, although certain restrictions apply for US employees.

The fair value of the conversion option is estimated as the fair value of the Bank shares at the time of the grant date less the price paid to acquire a share in the Plan. The expense of this share-based plan is then determined by estimating the number of Plan shares which are expected to convert to shares in the Bank.

The expense recognized for employee services during the year is shown in the following table:

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Share-based payment (reversal) expense	(1,492)	8,078

7. CASH AND SHORT-TERM FUNDS

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with banks (Note 7 (a))	121,204	54,291
Short-term deposits (Note 7 (b))	10,846	66,606
Transitory funds (Note 7 (c))	-	22,437
	132,050	143,334

a) Cash and balances with banks

Cash and balances with banks largely comprise the Group's cash balances with nostro accounts.

b) Short-term deposits

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Commodity Murabaha	10,089	67,163
Less: Deferred profits	(49)	(941)
	10,040	66,222
Investment in Mudaraba	806	384
	10,846	66,606

Murabaha are sales on deferred payment terms, based on the delivery of a commodity, which is the subject of the Murabaha, by the seller to the buyer and enabling the buyer to possess and benefit from the commodity, with the understanding that the buyer will pay the agreed-upon price at a certain future date inclusive of a profit margin.

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 the profit.

The investment in Murabaha and Mudaraba represents short-term deposits with financial and other corporate institutions and can be withdrawn on demand without penalty.

c) Transitory funds

Transitory funds mainly relate to proceeds due as at the balance sheet date which have not been credited to the Group's nostro accounts, but were received subsequent to the balance sheet date.

8. RECEIVABLES

	<u>30 Jun 2011</u>	<u>30 Jun 2010</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Receivables and prepayments (Note 8 (a))	458,924	382,592
Murabaha with investee companies (Note 8 (b))	512,011	464,330
Notes receivable (Note 8 (c))	161,608	227,037
	<u>1,132,543</u>	<u>1,073,959</u>

a) Receivables and prepayments

	<u>30 Jun 2011</u>	<u>30 Jun 2010</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Yield and management fee receivable	208,561	158,432
Receivable from investee companies	133,952	116,990
Subscriptions receivable	87,517	69,727
Prepayments and other receivable	28,894	37,443
	<u>458,924</u>	<u>382,592</u>

Subscriptions receivable represent amounts due from clients for participation in the Group's investment products. These are typically collected in the short term and are secured by the underlying investment assets until collection, which are only transferred to the client upon receipt of cash. SPAs outstanding for over six months are reviewed to assess if an allowance is required.

b) Murabaha with Investee Companies

	<u>30 Jun 2011</u>	<u>30 Jun 2010</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Commodity Murabaha receivables	542,905	484,814
Less: Deferred profits	(30,894)	(20,484)
	<u>512,011</u>	<u>464,330</u>

c) Notes receivable

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Employee Share Incentive Program (Note 8 (c) (i))	110,924	158,868
Investment Participation Plan (Note 8 (c) (ii))	50,684	68,169
	161,608	227,037

(i) Employee Share Incentive Program

An Employee Share Incentive Program (the 'Plan') as detailed in Note 6 was established in 1999. There were 275 eligible employees for the Plan as of 30 June 2011 (30 June 2010: 278).

The balance is contractually receivable on demand. Unallocated shares in the Plan are presented as a deduction from equity.

(ii) Investment Participation Plan

Eligible employees are given the opportunity to participate in investments arranged by the Group. Settlement is based on an agreed annual payment schedule. However, contractually this balance is receivable on demand. The Bank secures such receivables by assignment of these investments.

d) Allowance for doubtful receivable

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance at beginning of year	-	45,000
Allowance made during the year	100,989	68,230
Receivable written off	(100,989)	(113,230)
Balance at end of year	-	-

9. INVESTMENTS

	30 Jun 2011			
	Cost	Cumulative fair value changes (Note 9(b))	Total carrying value (Note 9(a))	30 Jun 2010 Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Real estate	1,137,292	(76,171)	1,061,121	1,049,389
Private equity	885,296	(109,624)	775,672	644,150
Infrastructure	432,894	95,788	528,682	474,588
	2,455,482	(90,007)	2,365,475	2,168,127
Planned retention			1,509,766	1,224,473
Available for placement with investors			855,709	943,654
			2,365,475	2,168,127
Average balances			2,326,566	2,406,259

a) Investments by sector and region

Sectors	30 Jun 2011			Carrying value
	Europe	Middle East & Asia	North America	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Residential	80,486	346,770	20,007	447,263
Commercial	269,063	280,482	4,803	554,348
Senior living	17,181	-	20,412	37,593
Industrial warehousing	21,917	-	-	21,917
Real estate	388,647	627,252	45,222	1,061,121
Manufacturing	256,842	20,169	77,200	354,211
Services	132,825	-	86,652	219,477
Consumer goods	-	-	87,179	87,179
Technology	-	19,947	52,888	72,835
Healthcare	-	-	33,253	33,253
Food	-	-	8,717	8,717
Private equity	389,667	40,116	345,889	775,672
Utilities	168,382	210,399	5,000	383,781
Gas storage and logistics	78,382	-	66,519	144,901
Infrastructure	246,764	210,399	71,519	528,682
	1,025,078	877,767	462,630	2,365,475

Sectors	30 Jun 2010			
	Europe	Middle East & Asia	North America	Carrying value
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Residential	75,299	210,672	64,239	350,210
Commercial	239,554	202,195	4,719	446,468
Senior living	13,106	-	36,379	49,485
Industrial warehousing	102,728	100,498	-	203,226
Real estate	430,687	513,365	105,337	1,049,389
Manufacturing	165,396	11,762	63,048	240,206
Services	133,317	-	83,669	216,986
Consumer goods	9,976	-	8,458	18,434
Technology	-	29,058	58,960	88,018
Healthcare	-	28,366	39,640	68,006
Food	-	-	12,500	12,500
Private equity	308,689	69,186	266,275	644,150
Utilities	118,103	135,409	93,307	346,819
Gas storage and logistics	52,080	-	75,689	127,769
Infrastructure	170,183	135,409	168,996	474,588
	909,559	717,960	540,608	2,168,127

b) Cumulative fair value changes

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance as at beginning of year	(304,355)	(237,003)
Fair value changes	48,020	(153,389)
Net movements attributable to exited deals	(24,809)	74,483
Other net movements	191,137	11,554
Balance as at end of year	(90,007)	(304,355)

Where the investment is listed, its fair value is determined by reference to the published price. Unlisted investments are valued using valuation methodologies as disclosed in Note 2(h). The majority of the investment portfolio is unlisted.

c) Sources of inputs used to derive fair value

IFRS 7 – Financial instruments: Disclosures, requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. This classification uses the following three level hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (e.g., quoted prices in an inactive market).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)(e.g., valuation methodology using EV/EBITDA multiples or discounted cash flows).

The following table categorizes the Group's investments using the hierarchy explained in the preceding paragraphs:

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Level 1	8,717	12,500
Level 3	2,356,758	2,155,627
	2,365,475	2,168,127

The following table categorizes the movements within Level 3 investments:

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balance as at beginning of year	2,155,627	2,551,302
Net funding movements for investments	(1,218)	(92,140)
Net fair value adjustments	45,347	(158,268)
Foreign exchange movements	157,002	(145,267)
Balance as at end of year	2,356,758	2,155,627

The fair values of Level 3 assets are determined using appropriate valuation techniques and assumptions as discussed in Note 2(h). In order to determine reasonably possible alternative assumptions, the Group adjusted inputs such as discount rates, capitalization rates and multiples both up and down. The results of such adjustments indicated that the effect on the portfolio is approximately +US\$63 million or –US\$61 million (30 June 2010: +US\$82 million or –US\$75 million).

10. OTHER ASSETS

Other assets include property and equipment amounting to US\$ 80.6 million (30 June 2010: US\$ 66.2 million).

11. DUE TO FINANCIAL AND OTHER INSTITUTIONS

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Due to other institutions	596,758	626,835
Due to financial institutions	479,959	457,269
	1,076,717	1,084,104

12. MEDIUM-TERM FINANCING

The syndicated financing facility of US\$1.1 billion is Murabaha-backed and carries a profit equivalent to a rate of 0.85 percent over the three-month US dollar LIBOR. The facility is repayable by a lump sum repayment in April 2012 unless settled earlier. The fair value of this facility amounts to US\$1,063 million (2010: US\$1,036 million) as compared to carrying value of US\$1,099 million (2010: US\$1,094 million).

13. FUNDING COVENANTS

The funding facilities identified in Notes 11 and 12 have covenants relating principally to maintenance of minimum capital adequacy and leverage ratio, limitation on dividend and guarantees. For two of the facilities, a charge amounting to less than 5 percent of assets capped by the outstanding facility amount has been made over the planned retention component of the investment portfolio.

14. OTHER LIABILITIES

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Accrued expenses	25,047	20,024
Liability relating to forward exchange contracts (Note 20)	15,201	-
Others	21,679	16,348
	61,927	36,372

15. UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts ("URIA") are funds of investors held by the Bank which it can invest as it deems appropriate without restriction as to where, how and for what purpose the funds are invested. These accounts are payable on demand and the account holder has the right to withdraw or transfer funds without penalty.

The Bank provides these accounts as an added service to investors who participate in the placement of investments and does not market these accounts as a product. Therefore, it

is not the practice of the Bank to guarantee the preservation of capital or competitive rate of return through the creation of profit equalization reserves or investment risk reserves. As a result, the Bank has minimal displaced commercial risk.

URIA funds have been allocated in full to a pool of Murabaha and Mudaraba assets with financial institutions and deal companies (Notes 7(b) and 8(b)), thus making allowance for short-term liquidity requirements as well as reducing risk for the URIA holders. The funds are invested and managed in accordance with Shari'ah principles.

Profit paid to the URIA holders is based on the rate of return earned by the pool of profit-bearing assets in which the URIA have participated. The Bank does not charge management (Mudarib) fees or other expenses to URIA holders and the account holder participates in the profits earned in full. As a result, the share of profits earned by the URIA holders is equal to the share of profits paid to them. The profits paid to URIA and the rate of return earned over the last five financial periods is disclosed in the following table:

Financial Period ended:	Profits earned and paid to URIA	Rate of return
	US\$ '000	%
30 June 2011	6,542	2.15
30 June 2010	3,604	1.53
30 June 2009	5,447	4.34
30 June 2008	14,088	4.53
30 June 2007	15,258	6.38

The pool of profit bearing assets is split between self-financed assets and jointly financed assets. Self-financed balances represent Murabaha and Mudaraba assets financed exclusively by the Group, while jointly financed balances are those financed by the Group and unrestricted investment accounts.

The following table details the self-financed and jointly financed profit-bearing assets:

	30 Jun 2011			30 Jun 2010		
	Self- Financed	Jointly Financed	Total	Self- Financed	Jointly Financed	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Murabaha with investee companies (Note 8(b))	-	512,011	512,011	165,997	298,333	464,330
Short-term Murabaha deposits (Note 7 (b))	-	10,040	10,040	-	66,222	66,222
Short-term Mudaraba deposits (Note 7 (b))	-	806	806	-	384	384
	-	522,857	522,857	165,997	364,939	530,936

16. SHARE CAPITAL AND PREMIUM

Share capital

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Authorized:		
800,000,000 (30 June 2010 : 800,000,000) ordinary shares of US\$1 each	800,000	800,000
Issued and fully paid up:		
As at beginning of year		
311,323,217 (1 July 2009: 282,243,170) ordinary shares	311,323	282,243
Issued during year		
Nil (2010 : 29,080,047) ordinary shares	-	29,080
Less: Treasury shares		
66,666 (2010: Nil) ordinary shares	(66)	-
As at end of year		
311,256,551 (30 June 2010: 311,323,217) ordinary shares	311,257	311,323

Share premium

Amounts collected in excess of the par value of the issued share capital during any issue of shares, net of issue expenses and share premium relating to repurchase of treasury shares, are treated as share premium. This amount is not available for distribution, but can be utilized as stipulated in the Bahrain Commercial Companies Law.

Unallocated Shares under Employee Incentive Program

As detailed in Note 6 and Note 8(c)(i) the Group operates an employee share incentive program. Under this program shares have been issued to the plan for allocation to plan participants. Any shares which are unallocated are presented as a deduction from equity based on the last issue price.

17. RESERVES

Statutory reserve

The Bahrain Commercial Companies Law and the Bank's Articles of Association require 10 percent of the net income for the year to be transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50 percent of the issued share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

Accumulated deficit/Retained earnings

Accumulated deficit/Retained earnings is the cumulative amount of annual earnings and losses not paid out as dividends or appropriations.

Appropriations

Appropriations of US\$ 1,003 thousand (30 June 2010: Nil) and US\$ 750 thousand (30 June 2010: Nil), for charitable contributions and directors remuneration respectively, has been proposed for approval by the shareholders.

18. SHARE SUBSCRIPTION PENDING ALLOTMENT

Share subscription pending allotment refers to cash received as application for shares in the Bank which are pending the legal formality of allotment. As at 30 June 2011 the Bank received US\$79.5 million (30 June 2010: nil) as part of the rights and strategic share issue that is ongoing. The rights issue was approved by the shareholders in the Extraordinary General meeting held on 06 December 2010.

19. CONTINGENT LIABILITIES AND COMMITMENTS

Total outstanding commitments and contingent liabilities are as follows:

	<u>30 Jun 2011</u>	<u>30 Jun 2010</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Financial guarantees	242,175	209,357
Investment-related commitments	49,441	95,684

Financial guarantees

Financial guarantees commit the Group to make payments on behalf of a third party in the event of a specific act. These guarantees have been given on behalf of investee companies. The Group does not expect these guarantees to be called.

Investment-related commitments

Investment-related commitments represent contractual commitments to fund certain deals. These commitments may expire without being drawn upon and do not necessarily represent future cash requirements.

Operating lease commitments

The Group has entered into commercial leases for office space in the locations it operates in. There are no restrictions placed upon the lessee. The future lease rentals are due as follows:

	<u>30 Jun 2011</u>	<u>30 Jun 2010</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Within one year	28,176	33,501
After one year but not more than five years	104,040	127,099
More than five years	65,067	110,468
	<u>197,283</u>	<u>271,068</u>

20. FORWARD EXCHANGE CONTRACTS – WA'AD

As part of its currency risk management, the Group enters into Shari'ah compliant forward exchange contracts. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. As at 30 June 2011 the Group had entered into €222 million of forward contracts which resulted in a net liability of US\$15.2 million (30 June 2010: nil).

21. RELATED PARTY TRANSACTIONS

Related parties include the Group's major shareholders, directors and key management personnel, their immediate families and entities controlled, jointly controlled or significantly influenced by them; and other related parties which comprise shareholders not included under 'Major Shareholders', the Shari'ah Supervisory Board, investee companies and companies that hold clients' investments.

Income earned from related parties is as follows:

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Management fees	95,096	74,996
Income from investee companies	71,846	72,066
Yield from investments	35,616	36,380
Acquisition and placement income	7,665	6,217
	210,223	189,659

Acquisition and placement income was earned on the Group's transactions with such related parties. Management fees and income from investee companies arises from investee companies in respect of the Group's management and administrative services and financing support. Allowance for doubtful receivable has been made against investee companies as detailed in (Note 8 (d)).

Expenses pertaining to related parties are as follows:

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net funding cost	32,072	54,870
Headquarters building expenses	30,470	17,257
	62,542	72,127

Net funding costs were accrued on Murabaha financing contracts with major shareholders. Headquarters building expenses comprises of rental and facilities management fees charged by investee companies.

The related party balances included in these consolidated financial statements are as follows:

	30 Jun 2011			Total	30 Jun
	Major shareholders	Directors and key management	Investee companies and others		2010
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	Total
Assets					
Receivables and other assets	47,424	7,713	1,052,884	1,108,021	1,032,808
Short-term funds	-	-	-	-	45,213
Liabilities					
Due to other institutions and other liabilities	155,331	2,671	453,430	611,432	729,026
Unrestricted investment accounts	96,908	2,433	129,527	228,868	156,696
Contingent liabilities and commitments					
Financial guarantee	-	-	242,175	242,175	209,357
Investment related commitments	-	-	49,441	49,441	95,684

The Group's transactions with related parties arise from the ordinary course of business and are on terms and conditions approved by the Group's management. Outstanding balances at year end are unsecured and settled in cash.

Key management personnel are those that possess significant decision-making and direction-setting responsibilities in each team, at different grades within the Group. Compensation of these key management personnel is as follows:

	Year ended 30 Jun 2011	Year ended 30 Jun 2010
	US\$ '000	US\$ '000
Short-term employee benefits	37,323	39,029
Share-based payments	(1,492)	8,078

22. SEGMENT INFORMATION

The primary business of the Group is to identify attractive investment opportunities for acquisition and placement with its customers. In order to manage this activity and retain strategic focus, the Group has structured its operations into four operating segments: private equity, real estate, infrastructure and venture capital investments. Each operating segment differs from the other in terms of risks and rates of return. The Group's internal management information system reflects the operations of these four segments. The results of the venture capital line of business have been aggregated within the private equity segment, due to its relative size.

(i) Operating segments

The following table presents revenue, segment results and certain asset and liability information regarding the Group's operating segments for the year ended **30 June 2011**.

	Private equity	Real estate	Infra- structure	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Segmental income	6,277	194,500	56,629	257,406
Unallocated income				140,852
Total income				398,258
Segmental results	(52,634)	150,000	(1,380)	95,986
Unallocated results				(45,823)
Net income				50,163
Assets, liabilities and URIA				
Segment assets	987,943	1,656,704	845,002	3,489,649
Unallocated assets				228,601
				3,718,250
Segment liabilities	47,289	216,153	139,161	402,603
Unallocated liabilities and URIA				2,198,109
				2,600,712

The following table presents revenue, segment results and certain asset and liability information regarding the Group's operating segments for the year ended **30 June 2010**.

	Private equity	Real estate	Infra- structure	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Segmental (loss) income	(37,789)	(13,211)	7,047	(43,953)
Unallocated loss				(191,027)
Total loss				(234,980)
Segmental results	(130,058)	(36,375)	(4,295)	(170,728)
Unallocated expenses				(388,661)
Net loss				(559,389)
Assets, liabilities and URIA				
Segment assets	995,460	1,452,116	789,159	3,236,735
Unallocated assets				220,401
				3,457,136
Segment liabilities	18,861	234,717	119,219	372,797
Unallocated liabilities and URIA				2,024,179
				2,396,976

Other segmental information

The business segments share services and operate from all the locations in which the Group carries out its business. Therefore, capital expenditure and depreciation cannot be allocated to business segments except through an arbitrary allocation process. The Group does not consider these items significant in evaluating the performance of business segments.

Pooling of funding

The Group sources its funding on an aggregate basis. The business segments do not raise funds on their own account. Depending on the Group's strategic plan and the different business cycles of each business segment, funding is provided as required. Therefore, the Group does not allocate funding liabilities and expenses to the different segments for purpose of this disclosure. Doing so would result in arbitrary allocations and hide the true nature of the Group's business.

(ii) Geographical segments

The Group sources investments from three geographical regions for placement with its clients. These regions are North America; Europe; and the Middle East and Asia; and have therefore been identified as its three geographical segments. Income from clients disclosed below is based on the geographical location of the client.

The following table presents revenue of external customers by the geographical location of the client. Assets for each segment are presented by geographical location of the asset.

	30 Jun 2011			
	North America	Europe	Middle East & Asia	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Total (loss) income	(94,821)	53,221	439,858	398,258
Assets	943,084	1,316,808	1,458,358	3,718,250
	30 Jun 2010			
	North America	Europe	Middle East & Asia	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Total (loss) income	(113,262)	33,676	(155,394)	(234,980)
Assets	1,155,118	1,134,483	1,167,535	3,457,136

23. RISK MANAGEMENT

Risk management is fully integrated into the Group's decision-making process. It is managed through the Risk Management Committee, comprising members of senior management drawn from all key areas of the Group, who guide and assist with overall management of the Group's risks. Each individual within the Group is accountable for the risk exposures relating to their responsibilities. In the ordinary course of business the Group is exposed to liquidity, credit, concentration, profit rate, equity price, currency, operational, reputational and strategic risks.

The Group has an independent process whereby risks are identified, measured and monitored. The Risk Management Department is responsible for this process.

a) Risk management structure

Board of Directors

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

Risk Management Committee

The Risk Management Committee has the overall responsibility for development of the Group's risk strategy and implementing its principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk exposures.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring exposures against limits.

Treasury

Treasury is primarily responsible for funding and liquidity management.

b) Risk management and reporting systems

The Risk Management Committee is responsible for managing and monitoring risk exposures. The Risk Management Department measures risk through the use of risk models and provides reports to the Risk Management Committee. The models use value at risk (VaR) based on a one-year horizon and a 98.5 percent confidence level.

The monitoring and controlling of risks is managed through limits set by the Risk Management Committee. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department presents reports to the Board of Directors, Risk Management Committee and other relevant departments as required. These reports include analyses of capital adequacy, credit exposures, investment exposures, and foreign currency exposures.

c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions which may impact certain sources of funding.

To mitigate the risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group's maturity profile.

(i) Maturity analysis of assets, liabilities and unrestricted investment accounts

The table below summarizes the maturity profile of the Group's assets, liabilities and unrestricted investment accounts based on expected repayment arrangements. In general maturities are not expected to exceed five years. The Group's contractual undiscounted repayment obligations are disclosed in Note 23 (c) (ii).

The maturity profile of assets, liabilities and unrestricted investment accounts as at **30 June 2011** is as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Less than 1 year	1 to 3 years	Over 3 years	More than 1 year	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
ASSETS									
Cash and short-term funds	132,050	-	-	-	132,050	-	-	-	132,050
Receivables	66,518	225,578	251,101	438,890	982,087	85,974	64,482	150,456	1,132,543
Investments	-	250,178	-	423,009	673,187	763,661	928,627	1,692,288	2,365,475
Other assets	-	7,555	-	-	7,555	-	80,627	80,627	88,182
	198,568	483,311	251,101	861,899	1,794,879	849,635	1,073,736	1,923,371	3,718,250
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to financial and other institutions	20,834	381,579	174,278	303,209	879,900	192,702	4,115	196,817	1,076,717
Medium-term financing	-	-	-	373,637	373,637	-	725,000	725,000	1,098,637
Other liabilities	-	57,530	-	-	57,530	-	4,397	4,397	61,927
Unrestricted investment accounts	-	121,135	-	-	121,135	242,296	-	242,296	363,431
	20,834	560,244	174,278	676,846	1,432,202	434,998	733,512	1,168,510	2,600,712

The maturity profile of assets, liabilities and unrestricted investment accounts as at **30 June 2010** was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Less than 1 year	1 to 3 years	Over 3 years	More than 1 year	Total
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
ASSETS									
Cash and short-term funds	96,735	46,599	-	-	143,334	-	-	-	143,334
Receivables	191,034	274,117	111,176	234,701	811,028	79,531	183,400	262,931	1,073,959
Investments	-	93,373	155,622	213,525	462,520	1,105,080	600,527	1,705,607	2,168,127
Other assets	-	5,559	-	-	5,559	-	66,157	66,157	71,716
	287,769	419,648	266,798	448,226	1,422,441	1,184,611	850,084	2,034,695	3,457,136
LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS									
Due to financial and other institutions	15,919	3,184	235,882	495,257	750,242	333,862	-	333,862	1,084,104
Medium-term financing	-	-	-	-	-	1,094,031	-	1,094,031	1,094,031
Other liabilities	-	32,038	-	-	32,038	4,334	-	4,334	36,372
Unrestricted investment accounts	-	182,469	-	-	182,469	-	-	-	182,469
	15,919	217,691	235,882	495,257	964,749	1,432,227	-	1,432,227	2,396,976

(ii) Contractual undiscounted repayment obligations

The contractual undiscounted repayment obligations as at **30 June 2011** are as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Less than 1 year	1 to 3 years	Over 3 years	More than 1 year	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to financial and other institutions	20,721	486,155	175,911	303,556	986,343	94,025	4,185	98,210	1,084,553
Medium-term financing	3,125	-	3,125	1,096,875	1,103,125	-	-	-	1,103,125
Other liabilities	57,530	-	-	-	57,530	-	4,397	4,397	61,927
Unrestricted investment accounts	363,431	-	-	-	363,431	-	-	-	363,431
	444,807	486,155	179,036	1,400,431	2,510,429	94,025	8,582	102,607	2,613,036

The contractual undiscounted repayment obligations as at **30 June 2010** were as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Less than 1 year	1 to 3 years	Over 3 years	More than 1 year	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to financial and other institutions	15,944	5,083	239,109	497,313	757,449	335,639	-	335,639	1,093,088
Medium-term financing	3,212	-	3,212	6,424	12,848	1,112,850	-	1,112,850	1,125,698
Other liabilities	36,372	-	-	-	36,372	-	-	-	36,372
Unrestricted investment accounts	182,469	-	-	-	182,469	-	-	-	182,469
	237,997	5,083	242,321	503,737	989,138	1,448,489	-	1,448,489	2,437,627

d) Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept from individual counterparties.

In placing short-term funds with financial institutions, the Group has set limits based on external credit ratings when available and internal scores. Where financial institutions are rated by External Credit Assessment Institutions ("ECAIs") approved by the CBB, the Group chooses the lowest available rating. If the financial institution is not rated, an internal rating is generated through a process of due diligence and an internal credit scoring model. Such ratings are approved by the Risk Management Committee. The Board of Directors has set limits in reference to such ratings. The Risk Management Department monitors counterparty ratings.

The Group does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of short-term funds on Murabaha contracts (short term deposits) and receivables. The Group deploys its excess funds in a conservative manner, targeting highly rated financial institutions locally and internationally.

The following table analyzes the maximum exposure to credit risk and the average balance outstanding. The average balance is calculated on a daily basis.

(i) Maximum exposure to credit risk

	30 Jun 2011		30 Jun 2010	
	<i>Outstanding</i>	<i>Average</i>	<i>Outstanding</i>	<i>Average</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Receivables (Note 8)	1,132,543	1,208,829	1,073,959	1,202,060
Cash and short-term funds (Note 7)	132,050	212,938	143,334	44,395
Total credit risk exposure	1,264,593	1,421,767	1,217,293	1,246,455

The Group has not obtained collateral of any kind with reference to its Murabaha financing. However, subscriptions and notes receivable are secured as described in Note 8.

(ii) Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed according to counterparty. The maximum credit exposure to any counterparty as of 30 June 2011 was US\$128.6 million (30 June 2010: US\$105.1 million).

The following table analyzes the geographical and industrial sector concentrations of the Group's maximum exposure to credit risk.

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Geographic region		
Middle East and Asia	503,956	382,549
North America	478,420	619,570
Europe	282,217	215,174
	1,264,593	1,217,293
Industry Sector		
Utilities and others	528,646	693,346
Real estate	418,782	266,100
Banking and financial institutions	132,091	79,286
Manufacturing	99,320	131,008
Services	56,230	34,279
Technology	29,524	13,274
	1,264,593	1,217,293

(iii) Analysis of exposure to credit risk by external credit ratings

The CBB has recognized certain ECAIs. The Group considers the credit risk ratings that the counterparty obtains from ECAIs recognized by the CBB. The Group follows the CBB mapping notation and equates all ratings to its equivalent Standard & Poor's rating for standardization and comparison purposes.

The table below analyzes the Group's maximum credit exposures, which are neither past due nor impaired by its equivalent Standard & Poor's rating. The majority of exposures which are not rated relate to receivables (Note 8).

	30 Jun 2011	30 Jun 2010
	<i>US\$ '000</i>	<i>US\$ '000</i>
Standard and Poor's ratings or equivalent		
AAA to AA-	114,920	20,611
A+ to A-	13,983	38,807
BBB+ to BBB-	3,066	11,185
BB+ to B-	-	5,001
Not rated	1,132,624	1,141,689
	1,264,593	1,217,293

The Group did not have any past due or impaired balances as at 30 June 2011 (30 June 2010: nil).

e) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The distribution of assets, liabilities and URIA by geographic region and industry sector is as follows:

	30 Jun 2011		30 Jun 2010	
	Assets	Liabilities and URIA	Assets	Liabilities and URIA
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Geographic region				
Middle East and Asia	1,458,358	1,625,485	1,167,535	1,378,675
Europe	1,316,808	741,972	1,134,483	750,846
North America	943,084	233,255	1,155,118	267,455
	3,718,250	2,600,712	3,457,136	2,396,976
Industry sector				
Real estate	1,512,067	216,153	1,231,279	258,717
Utilities and others	1,209,243	706,700	1,390,674	568,068
Manufacturing	433,363	26,623	360,878	5,544
Services	349,075	4,793	322,732	9,234
Banking and financial institutions	132,091	1,635,936	79,339	1,552,522
Technology	82,411	10,507	72,234	2,891
	3,718,250	2,600,712	3,457,136	2,396,976

f) 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 is a combination of the rate of return risk and the risk of exposure due to the mismatch in the Group's profit sensitive assets and liabilities caused by variations in the market reference rate which would result in a decrease of the Group's net present value.

The Group is not exposed to interest rate risk on its financial assets as no interest is charged. However, the fair value of financial instruments may be affected by current market forces including interest rates.

The following table indicates the effective profit rates on such financial instruments:

	Profit rate	
	30 Jun 2011	30 Jun 2010
Short term deposits	1.99%	3.02%
Murabaha with investee companies	13.34%	14.69%
Due to financial and other institutions	8.44%	11.12%
Medium-term financing	1.79%	1.69%
Unrestricted investment accounts	2.15%	1.53%

The Group monitors the net profit-bearing asset or liability and its sensitivity to changes in market rates against preset limits. The following table demonstrates the sensitivity of the Group's consolidated statement of income to reasonably possible changes in market profit rates, with all other variables being held constant. The sensitivity of net funding costs to changes in market profit rates has been calculated based on the 'net' profit-bearing liability and the weighted average profit rates prevailing as at the year end.

Currency	Basis point change in rates (+/-)	Sensitivity of net funding costs (+/-) 30 Jun 2011	Basis point change in rates (+/-)	Sensitivity of net funding costs (+/-) 30 Jun 2010
		US\$ '000		US\$ '000
United States Dollars	25	3,513	25	3,141
Pounds Sterling	25	82	25	142
Euro	25	230	25	394
Others	25	501	25	190
All profit-bearing net liabilities	200	34,611	200	30,931

The Group currently does not hold fixed rate available for sale financial assets or associated hedges and swaps, whose value would be impacted by changes in profit rates. Therefore, changes in profit rates will not have any impact recognized directly in equity.

Currency risk

The majority of the Group's business is conducted in US dollars. However, certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

In order to manage currency risk, the Risk Management Committee has set limits for each currency's net position as well as a VaR limit on the overall foreign currency exposure. Currency positions are monitored by the Risk Management Department on a daily basis and reported to the Risk Management Committee and other relevant departments on a weekly basis.

The currency VaR model is based on the commonly used Monte Carlo Simulation. This analysis is supplemented through two other VaR methodologies; Historical Simulation and Variance-Covariance. The adverse loss arising from the net open position is evaluated using the volatilities and correlations between the foreign currencies in the Group's balance sheet. Limits are monitored and reported to the Risk Management Committee on a weekly basis.

The results of the currency VaR model are back-tested against the actual profit and loss on the Group's foreign currency exposures. The Risk Management Committee analyzes the back-testing exceptions and assesses the predictive power of the currency VaR model. In its effort to enhance the effectiveness of the model, the Risk Management Department is in the process of documenting the methodology and assumptions of the model to be formally approved by the Risk Management Committee.

The table below details the result of the daily VaR model, over a one day time horizon with a confidence level of 98.5 percent, in relation to currency positions.

Currency positions VaR results	30 Jun 2011	30 Jun 2010
	<i>US\$'000</i>	US\$'000
Closing VaR	16,358	19,687
Average VaR	17,237	33,017
Highest VaR	23,026	42,432
Lowest VaR	12,313	18,592

The Group has investments in foreign subsidiaries, the majority of whom prepare financial statements in United States Dollars. The translation effect of those subsidiaries preparing their financial statements in currencies other than United States Dollars is negligible. Currency exposures resulting from these subsidiaries are managed on a consolidated basis as described above.

The Group had the following significant foreign currency exposures as at the balance sheet date:

	30 Jun 2011			30 Jun 2010		
	Assets	Liabilities, Wa'ad and URIA	Net	Assets	Liabilities, and URIA	Net
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Euro	967,136	(482,304)	484,832	912,818	(230,039)	682,779
Pounds Sterling	380,273	(38,538)	341,735	262,502	(60,786)	201,716
Singapore Dollar	19,436	(129,751)	(110,315)	139,618	(20,229)	119,389
Other	65,059	(105,309)	(40,250)	44,365	(5,202)	39,163
	1,431,904	(755,902)	676,002	1,359,303	(316,256)	1,043,047

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks. The Group's exposure to equity instruments is detailed in Note 9 to these consolidated financial statements.

The investment portfolio consists almost entirely of unlisted private equity investments. The investment VaR model assigns each investment to a particular industry sub-sector and maps the investment to listed securities and evaluates the sensitivity of stock returns to certain company and industry-related factors such as market capitalization, leverage ratios and industry type, in an effort to quantify and forecast investment risks.

The VaR model is based on a multiple regression analysis between public stock returns and the factors that have been identified as drivers that explain investment returns and their significance level. Subsequently, by determining the exposures of the Bank's investments to the selected factors and their level of volatilities, a level of risk per investment is derived. When aggregating all the risks of investments in a portfolio the model considers correlations between the investments' returns to be the same as the correlation between similar listed equity returns. The model does not explicitly account for country specific risk. The model does not account for any premium associated with private equity investments nor liquidity risk inherent in unlisted investments and has therefore excluded consideration of those risks in the model for now. However, the model includes an estimate of the investment-specific risk based on comparables and management's judgement. The model measures unexpected losses over a one year time horizon with a confidence level of 98.5 percent and accordingly assesses economic capital required. The table below details the results of the investment VaR model in relation to its investment portfolio.

Investment VaR model results

	30 Jun 2011	30 Jun 2010
	US\$ '000	US\$ '000
Closing VaR	884,619	836,057
Average VaR	885,600	998,009
Highest VaR	933,697	1,064,810
Lowest VaR	850,646	834,302

VaR models detailed in this section are statistical models basing their results on a number of assumptions as detailed above. As a result, such models are inherently at risk of error. To retain confidence in the results of these models, the Group intends to continually improve these models through regular reviews of assumptions, back testing of the models, and independent third party reviews.

g) 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'ah non-compliance risk, but excludes strategic and reputational risk.

The management of operational risk in the Group 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, authorization and reconciliation procedures, staff training and assessment processes, including the work of the internal audit department.

Where appropriate, key risk indicators have been set to alert management to potential increased operational risk likelihood or severity. Each department nominates an operational risk reporting officer whose role is to report occurrences of operational risk events. The overall self assessment and combined event reporting is reviewed by the Risk Management Committee, which determines action to be taken as required. This framework improves operational risk assessment, awareness and accountability.

24. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB, maintains strong credit ratings and a healthy capital ratio in order to support its business and maximize shareholder value.

a) Regulatory capital and risk-weighted assets

The regulatory capital and risk-weighted assets have been calculated in accordance with Basle II as adopted by the CBB.

	30 Jun 2011	30 Jun 2010
	<i>US\$'000</i>	<i>US\$'000</i>
Tier I Capital (Note 24 (a) (i))	1,006,614	901,292
Tier II Capital (Note 24 (a) (ii))	-	-
Total regulatory capital	<u>1,006,614</u>	<u>901,292</u>
Risk-weighted assets (Note 24 (a) (iii))	<u>6,388,322</u>	<u>7,105,363</u>
Capital ratio	15.8%	12.7%
Minimum capital ratio required by CBB	12.0%	12.0%
<i>(i) Tier I Capital</i>		
	30 Jun 2011	30 Jun 2010
	<i>US\$'000</i>	<i>US\$'000</i>
Share capital	311,257	311,323
Share premium	953,987	954,175
Statutory reserves	103,508	98,492
Accumulated deficit	(73,692)	(115,594)
Bank-funded stock	(367,989)	(347,104)
Share subscription pending allotment	79,543	-
Tier I Capital	<u>1,006,614</u>	<u>901,292</u>

(ii) Tier II Capital

Under the current regulations, unaudited net income for the year is classified under Tier II. Once the consolidated financial statements are audited, this balance is classified as Tier I and, as a result, at financial year end the Group does not have any Tier II capital.

(iii) Risk-Weighted Assets and Allocated Regulatory Capital

	30 Jun 2011		30 Jun 2010	
	Risk-Weighted Assets	Allocated Regulatory Capital	Risk-Weighted Assets	Allocated Regulatory Capital
	US\$'000	US\$'000	US\$'000	US\$'000
Investment exposures	4,070,108	488,413	3,825,630	459,076
Receivables	911,209	109,345	1,031,022	123,723
Claims from Banks	25,948	3,114	18,487	2,218
Other assets	88,182	10,582	71,716	8,606
Attributable to self-financed assets	5,095,447	611,454	4,946,855	593,623
Attributable to URIA-financed assets	107,451	12,894	49,664	5,960
Credit risk-weighted assets	5,202,898	624,348	4,996,519	599,583
Operational risk-weighted assets	303,637	36,436	1,065,519	127,862
Market risk-weighted assets	881,788	105,815	1,043,325	125,199
Total	6,388,322	766,599	7,105,363	852,644

Credit risk-weighted assets

The Group uses the standardized approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments.

Assets financed by URIA are risk weighted in a similar way. The CBB requires that 30 percent of such risk-weighted assets should be allocated against the capital of the Bank.

Operational risk-weighted assets

In calculating operational risk-weighted assets, the Group uses the basic indicator approach which calculates operational risk-weighted assets as a proportion of the average of three years' revenues.

Market risk-weighted assets

The Group does not maintain a trading book and, as a result, market risk-weighted assets result from the net foreign currency positions of the Group. Market risk-weighted assets are calculated using the standardized method. The capital allocated to market risk is detailed in the table below.

Regulatory Capital Allocated to Market Risk	30 Jun 2011	30 Jun 2010
	<i>US\$'000</i>	US\$'000
Closing	105,815	125,199
Highest	142,800	191,625
Lowest	65,250	117,521

b) Capital management and allocation

The Group's capital management approach is driven by its business strategy, regulatory requirements of the CBB and the overall business environment in which it operates.

Investments

Strategically, the Group looks to allocate capital to investments based on their risk and return characteristics. This process therefore requires careful consideration of regulatory and economic capital requirements.

To assist in this process, the Risk Management Department has developed an internal investment risk model. This model maps the Group's unlisted investments to listed securities and observes the sensitivity of stock returns to certain company and industry-related factors such as market capitalization, leverage ratios and industry type, in an effort to quantify and forecast investment risks. The model and its results are detailed in Note 23 (f).

Currency positions

The Group measures, sets limits and monitors the economic capital required for currency risk using VaR methodology. The model and its results are detailed in Note 23 (f).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

An underlying presumption in the definition of fair value is that the Group is a going concern without any intention or requirement to curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value adjustments arise from re-measurement to fair value of investments carried at fair value through statement of income, if any.

As of 30 June 2011, assets carried at fair value through the income statement totalled US\$ 2,365 million (30 June 2010: US\$ 2,168 million). All other financial assets are carried at amortized cost and amount to US\$ 1,272 million (30 June 2010: US\$ 1,223 million). All liabilities and unrestricted investment accounts are carried at amortized cost and amount to US\$ 2,601 million (30 June 2010: US\$ 2,397 million).

The Group's methodology for determining fair value of investments is explained in Note 2(h). Fair value of other financial assets and liabilities on the balance sheet date approximate their carrying values except as indicated in Note 12.

26. EARNINGS PROHIBITED BY SHARI'AH

The Bank receives interest from incidental deposits. These earnings are prohibited by Shari'ah, hence utilized exclusively for charitable purposes and amount to US\$265 thousand only for the year (2010: US\$126 thousand).

27. SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'ah principles.

28. ZAKAH

In accordance with its Articles of Association, the Bank is not required to pay Zakah on behalf of its shareholders. However, the Bank is obligated to calculate and notify, under a separate report, individual shareholders of their prorata share of Zakah payable. The Bank's Shari'ah Supervisory Board approves these calculations.

29. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

30. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification does not affect previously reported net income or shareholders' equity.