

MESSAGE TO SHAREHOLDERS

We are pleased to present TAIB's Consolidated Financial Statements for the year ended December 31 2010. Regrettably, the bank has reported a loss of US\$ 39 million.

TAIB's net loss was largely due to a provision charge of US\$ 18.7 million towards an investment transaction relating to acquisition of land in Mecca. The Bank has recourse to a third party and accordingly, a law suit for recovery has been initiated. The Global downturn continued to affect the Bank's performance during 2010 and the main focus of the Bank during the year was to protect the shareholders' funds and the liquidity position of the Bank. The Bank's focus in 2010 was to streamline and reduce the cost. Our efforts resulted in a savings of almost 9% in total costs.

Moving Forward:

At the end of the year, we appointed a new Senior Management Team responsible for four tasks;

Firstly, to stabilize the Bank's liquidity and regulatory capital position

Secondly, to start the restructuring of the Bank.

Thirdly, to prepare the Bank for refinancing and

Fourthly, to re focus the Bank with the objective of returning it to profit.

It is the intention of the Bank to call an Extraordinary General Assembly (EGM) before the end of this year to initiate refinancing.

Appreciation

As another challenging year comes to a close, we thank you, our shareholders, for your ongoing confidence, and respectfully acknowledge the unwavering support from the authorities from the Kingdom of Bahrain, including among others, the Ministry of Finance and Commerce, The Central Bank of Bahrain and the Bahrain Stock Exchange. Our gratitude also extends to the Board of Directors for their leadership; to our partners and co investors for their trust, and to our management team and staff for their continued dedication and hard work.



Abdulrazaq Mohammed Abdulla Ali Al Jassim
Chairman



Abdulaziz R AlRashed
Vice Chairman

FINANCIAL HIGHLIGHTS

US\$000s	2010	2009	2008	2007	2006
				Restated	Restated
Earnings					
Net interest and similar income	(3,191)	(786)	4,527	4,381	6,179
Fees and other income	9,918	8,576	4,429	40,312	43,223
Total operating income	6,727	7,790	8,956	44,693	49,402
Net income/ (loss) before provisions	(15,656)	(16,916)	(28,940)	19,311	28,528
Net income/ (loss)	(39,040)	(26,023)	(65,306)	15,218	22,367
Dividend	-	-	-	5,351	9,717
Financial position					
Total assets	270,691	348,106	370,487	473,634	434,017
Cash and placements with Banks	114,800	160,854	165,281	214,091	244,466
Investments and trading securities	114,982	129,688	143,992	202,099	153,296
Loans and advances	16,169	25,245	28,413	25,808	11,527
Customer deposits	154,438	193,907	155,743	135,879	148,068
Total deposits	175,216	218,432	207,673	224,531	229,176
Shareholders' equity	57,857	103,016	132,073	203,872	162,537
Equity	58,472	104,054	133,047	205,809	169,597
Ratios					
Earnings					
Return on average equity (%)	(48.0)	(22.0)	(38.5)	8.1	14.0
Return on average assets (%)	(12.6)	(7.2)	(15.5)	3.4	5.1
Earnings per share - Basic & Diluted (cents)	(36.0)	(24.2)	(60.6)	15.4	21.9
Cost					
Operating expense to Total Operating Income (%)	332	316	423	53	42
Capital					
Total Liabilities to Shareholders' equity (times)	3.7	2.4	1.8	1.3	1.6
BIS risk-adjusted Capital Adequacy Ratio (%)	12.9	17.0	23.0	31.2	57.8

(2007, 2008, 2009 & 2010 under Basel II)

FINANCIAL REVIEW

Following is a discussion of TAIB Bank's ('TAIB') financial results as reported in the Consolidated Financial Statements for the year ended 31 December 2010, which are presented in their entirety in this annual report.

2010 continued to be another challenging year for the Bank with a reported net loss of US\$ 39 million for the year. This loss was predominantly due to three factors; firstly a significant increase in the net negative interest paid during the year; secondly due to a provision for an investment in land in Mecca, Kingdom of Saudi Arabia, for an amount of US\$ 18.7 million; and thirdly additional unrealised mark-to-market losses in the real estate sector, particularly in Bahrain, India and the United Kingdom. The Bank has initiated legal proceedings in the Kingdom of Saudi Arabia to recover the investment with respect to the Mecca land transaction.

The Bank's leverage ratio stood at 3.6, while the Capital Adequacy Ratio, at 12.85%, which was above regulatory requirement at 31 December 2010. The Bank continued to maintain sound liquidity – with cash and placements aggregating to US\$ 115 million, as against bank borrowings of US\$ 21 million and client deposits of US\$ 154 million. Cash and placements with banks represent 42% of the total balance sheet. Fee income represented 66% of our total operating income.

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INCOME STATEMENT ANALYSIS

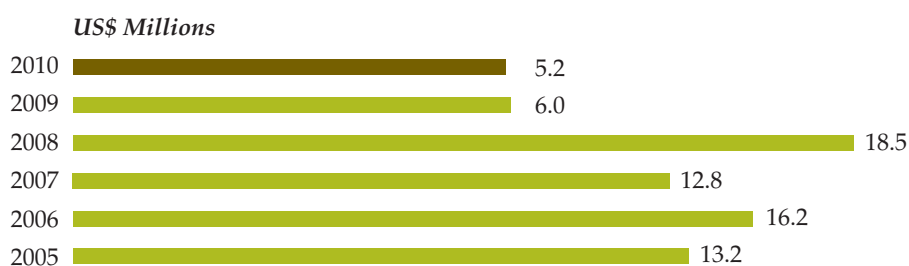
US\$ '000	2010	2009	2008	2007	2006 Restated
Net Interest and Similar Income	(3,191)	(786)	4,527	4,381	6,179
Fees and Other Income	9,918	8,576	4,429	40,312	43,223
Total Operating Income	6,727	7,790	8,956	44,693	49,402
Net income/(loss)	(39,040)	(26,023)	(65,306)	15,218	22,367

Net Interest and Similar Income

Net Interest and Similar Income comprises interest earnings from Turkish Treasury Bills, Kazakh Eurobonds, interbank placements and the loan portfolio. In 2010, the Bank reported Net Interest Income of negative US\$ 3.1 million compared to negative US\$ 0.8 million in 2009. Major portion of our assets was invested in long-term non-interest bearing assets generating either fee income or revenue from disposal of financial assets.

Fee and Commission Income

TAIB derives Fee and Commission Income from structuring and placement of real estate transactions, funds and direct equity products, in addition to earnings from brokerage and real estate property management fees. Income from fees and commissions for 2010 was US\$ 5.2 million which was marginally lower than last year since unfavourable market conditions still persisted which prevented new deals from being undertaken by the Bank.



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Net Trading Income

Trading Securities comprises investments in equities and funds, and in securities issued by U.S. government-sponsored agencies. Overall, TAIB's trading portfolio recorded a profit of US\$ 0.8 million in 2010, as compared to US\$ 0.7 million in 2009.

Gain on Disposal of Available-For-Sale Financial Assets

Available-For-Sale Financial Assets comprises investments in real estate property interests, direct equity investments, funds and other debt instruments in the U.S., U.K., Turkey, Kazakhstan and India. In 2010, TAIB recorded a moderate profit of US\$ 1 million compared to US\$ 1.1 million in 2009.

Changes in Fair Value of Investment Property

A portion of TAIB Tower, the Bank's headquarters, continued to be rented out and classified as investment property. Further, two U.S. properties, amounting to US\$ 17.9 million, are also classified as investment properties. Based upon the revaluation of these investment properties by independent, professionally qualified valuers, there was a fair value loss of US\$ 2.6 million in 2010 compared to US\$ 3.0 million charged to income in 2009.

Other Operating Income

Other Operating Income comprises rental income from the leasing of certain floors of TAIB Tower, leasing of investment property in the U.S., fees from custodial services offered to clients, and dividends earned on private equity investments. In 2010, TAIB recorded income of US\$ 5.1 million, compared to US\$ 4.5 million in 2009.

Operating Expenses

Operating Expenses for the year amounted to US\$ 22.3 million, compared to the reported US\$ 24.6 million in 2009, a decrease of 9%. The reduction is mainly due to reduced staff costs and tighter operating cost controls adopted during the year.

Provision for Impairment – Loans, Investments and Other Assets

During the year, the bank made provision on a real estate investment in Mecca, Saudi Arabia in the amount of US\$ 18.7 million (refer Note 7 of the consolidated financial statements).

Provision for impairment of loans and investments for the year was US\$ 4.6 million as compared to US\$ 8.9 million in 2009. The provisions mainly related to the decline in the valuation of certain real estate assets and margin loans to customers.

BALANCE SHEET ANALYSIS

Total Assets

At year-end 2010, Total Assets stood at US\$ 271 million as compared to US\$ 348 million in 2009, a decrease of US\$ 77 million. Liquid assets – including cash, placements with banks and trading securities – stood at US\$ 120 million, while the ratio of liquid assets to total assets stood at 44%.

Cash and Placements with Banks

Cash and Placements with Banks decreased by US \$ 46 million to stand at US\$ 115 million in 2010 compared to US\$ 161 million in 2009. The reduction was mainly due to decrease in fixed deposits and nostro balances.

Financial Assets at Fair Value through Profit or Loss

Financial Assets at Fair Value through Profit or Loss includes trading securities, which comprise investments in equities and funds. A marginal decrease from US\$ 5.4 million to US\$ 5.2 million in this asset category was due to a reduction in trading portfolio of funds.

Loans and Advances

In 2010, Loans and Advances stood at US\$ 16.1 million compared to US\$ 25.2 million in 2009. The loan book in Kazakh subsidiary decreased from US\$ 9.9 million in 2009 to US\$ 5.5 million in 2010 and, concurrently, there was reduction in the margin lending portfolio of the brokerage subsidiary from US\$ 6.1 million to US\$ 2.9 million.

Available-For-Sale Financial Assets

Investment in real estate property interests, direct equity transactions, funds and other debt and equity investments are classified and reported under Available-For-Sale Financial Assets. Total investment under this category stood at US\$ 66.3 million compared to US\$ 77.8 million in 2009. The reduction was mainly due to redeeming our investment in proprietary funds and additional provisioning during the year.

	2010	2009
	US\$ '000	US\$ '000
Government Agency Bonds	1,707	2,565
Property interests held for sale (Equity)	43,998	53,272
Private equity investments	7,219	6,908
Investments in funds	703	1,211
Other	12,678	13,815
	66,305	77,771

Government Agency Bonds

Government Agency Bonds comprise the Bank's investments in CMOs ("Collateralised Mortgage Obligations") issued and guaranteed by the U.S. government and/or U.S. government-sponsored agencies.

Property Interests held for sale (Equity)

The amounts represent interest in real estate investments in the U.S., U.K. and Asia. Investments in equity are held by TAIB for its own account.

Private Equity Investments

Investments in private equity or structured corporate equity stood at US\$ 7.2 million in 2010, compared to US\$ 6.9 million in 2009.

Investment in Funds

Investment in Funds primarily includes the investments in funds managed by external asset managers. As of year-end 2010, these investments amounted to US\$ 0.7 million compared to US\$ 1.2 million in 2009. The decrease is mainly due to redemption of certain funds.

Other

This residual category comprises investments in Kazakh and Turkish bonds. Total invested stood at US\$ 12.6 million: Kazakh – US\$ 9.3 million and Turkish – US\$ 3.3 million.

Investment in Associate

This represents the 13.43% investment in Acacia Investments B.S.C. (c), a real estate investment company that was incorporated in Bahrain in 2008. During the year, US\$ 1 million was charged to income statement as share of loss from the above entity.

Investment Property

Investment Property comprises TAIB's investment in certain property with an intention to resell, along with the value of the rented portion of TAIB Tower. In 2010, this decreased to US\$ 24 million from US\$ 26 million in 2009, primarily due to reduction in valuation of a property in Bahrain.

Total Liabilities

In 2010, Total Liabilities were US\$ 212 million, as compared to US\$ 243 million in 2009. The decrease of US\$ 31 million is mainly attributable to reduction in deposits from customers from US\$ 194 million to US\$ 154 million (decrease of US\$ 40 million). This reduction was partially offset by increase in other liabilities mainly due to provision for one real estate investment in the amount of US\$ 18.7 million.

Liquidity

Liquid Assets, which consists of cash, interbank placements and trading securities, stood at US\$ 115 million in 2010. The ratio of liquid assets to total assets stood at 44%.

Capital Adequacy

(as per Central Bank of Bahrain guidelines)

	2010	2009
Regulatory Capital	33,319	67,709
Risk-weighted assets:		
Credit risk weighted exposures	163,181	275,933
Operational risk weighted exposures	46,496	62,174
Market risk weighted exposures	49,586	59,262
Total risk-weighted assets	259,263	397,369
Capital Adequacy Ratio %	12.85	17.04
US\$ Price per share	2.73	2.73
Leverage	3.6	2.4

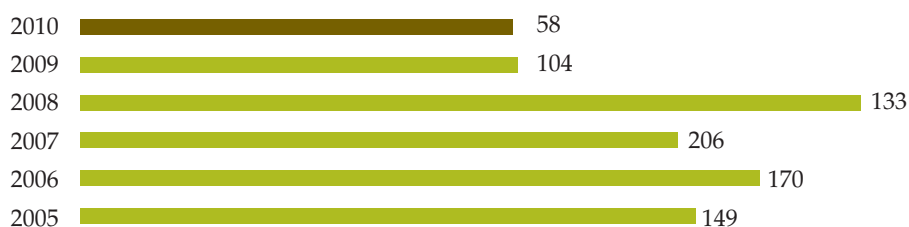
Capital Strength

The Central Bank of Bahrain requires a minimum Capital Adequacy Ratio of 12%, while the normal international minimum requirement is 8%. In comparison with these norms, TAIB's Capital Adequacy Ratio in 2010 stood at 12.85%.

Equity

In 2010, Total Equity stood at US\$ 58 million compared to US\$ 104 million in 2009. This decrease is primarily due to the current-year loss of US\$ 39 million, with the balance representing currency revaluation and fair value shortfall.

US\$ Millions



Shareholders with direct holdings of 5% or more of the outstanding shares as at 31 December 2010

ShareholdersName	Nationality	Number of Shares Outstanding in 000's	% of Holding
Dubai Financial (LLC)	United Arab Emirates	65,754	61.5%
Rashed Abdulrahman Alrashed & Sons Co.	Saudi Arabia	14,245	13.3%

Distribution of shareholding as at 31 December 2010

Categories	Number of Shares in 000's	Number of Shareholders	% of Total Outstanding Shares
Less than 1%	13,321	174	12.5%
1% up to less than 5%	13,538	7	12.7%
5% up to less than 10%	-	-	0.0%
10% up to less than 20%	14,245	1	13.3%
20% up to less than 50%	-	-	0.0%
50% and above	65,754	1	61.5%
Total	106,859	183	100.0%

Shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the bank licensee or other shareholders.

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Shareholders as on 31 Dec 2010				
No. shares	Shareholder	No. of shares	(%excl Treasury shares)	(%incl Treasury shares)
	<u>Dubai Financial (LLC)</u>	65,754,466	61.53%	58.52%
	<u>AbdulAziz Alrashed Group</u>	14,730,951	13.79%	13.11%
12,382	Abdulaziz Rashed A Rahman Alrashed			
473,603	Alrashed and Alomran Company Limited			
14,244,966	Rashed Abdulrahman Alrashed & Sons Co.			
	<u>EIP & Associated Group Companies</u>	7,059,894	6.61%	6.28%
16,355	Iqbal G. Mamdani			
5,185,931	EIP Company Limited			
78,662	First Asian Investments S.A. (FAISA)			
1,778,946	Trans-Arabian Development Company E.C.			

BUSINESS REVIEW

BROKERAGE

TAIB Securities WLL - Bahrain

TSWLL provides access to more than 40 different capital markets across the world including India and the US. The incomes from the Indian market and the US market trades were 38.82% and 17.12% respectively of the total brokerage income for the year.

For the year, TSWLL carried out 9,370 trades on behalf of the clients and the total trading volume was over USD 452 million.

TSWLL provided in-depth research on more than 110 companies that are listed in the GCC region. The research output comprises of daily news; daily market report; and quarterly reports on more than 110 companies. The reports from TAIB Research are being accessed and well received by the clients as well as other investors, both regional and international.

The brokerage income was USD 1.24 million and the total revenue was USD 2.59 million. The net profit for the year was USD 0.57 million.



TAIB Securities LLC (UAE)

TSLLC is an 80% subsidiary of TSWLL – Bahrain, providing access to the Abu Dhabi Securities Market and Dubai Financial Market, and indirect access to Nasdaq Dubai.

For the year 2010, the revenue for the company was USD 0.17 million and the loss was USD 1.65 million (after considering Non-controlling interest in equity), on account of the provision of doubtful debt to the tune of USD 1.22 million.

Consolidated Financials

The consolidated revenue for TAIB Securities WLL was USD 2.77 million in 2010. The net loss on a consolidated basis was USD 1.08 million (after considering Non-controlling interest in equity in TSLLC, UAE) due to aforementioned provisions made by TSLLC – UAE.

ASSET MANAGEMENT

In 2010, there have been additional redemptions for the TAIB Gulf Fund – which passively tracks the Saudi Tadawul Index.

The total asset under management at the end of 2010 was USD 22.37 million.

The focus area for the asset management is discretionary portfolio management for the clients.

REAL ESTATE

As at 31 December 2010, TAIB holds 13.43% stake in Acacia, a specialized real estate investment company for which the Bank is also the principal founding shareholder

Logix TechnoPark

Property Type: Four, Grade 'A' Office Towers

Location: Noida, Delhi, India

JV Partner: Logix Group

A 49% stake acquired in February 2008 by TAIB, Acacia and Investors ('Acacia SPV') in this IT Park, comprising a total gross leasable area of 466,700 square feet. Major tenants include Oracle, Mentor Graphics, Patni Computer Systems, SafeNet InfoTech, Conexant Systems and NEC HCL Systems. The current property occupancy is 95%. The total equity invested by Acacia SPV was US\$ 29.25 million, which represents a 49% stake in equity. Logix Group retains an equity stake of 51%. Acacia SPV has a preferred return of 18% IRR before any distributions are made to the JV Partner. To date, a total of US\$ 4.35 million (14.87% of Invested Capital) has been distributed by Acacia's SPV to its stakeholders. Currently, Logix Group and Acacia are actively pursuing sale of the Property.

Anant Raj Mall

Property Type: Retail Mall Development

Location: Kirtinagar, West Delhi, National Capital Region, India

JV Partner: Anant Raj Group

A 26% stake by Acacia, TAIB and Investors in this 1 million square foot retail mall development which, when completed, will offer a gross leasable area of 600,000 square feet. The remaining 74% stake is held by the JV partner and developer Anant Raj Group, a listed entity in India and one of North India's largest development companies. The deal was structured in a Shariah-compliant manner in conformity with 'Mosharakah' principles. TAIB was the exclusive placement agent. The mall is 50% leased and due to be opened by Q2 2011. An "Exit Agreement" was executed with the Indian partner for an assured exit by August '11. To date, 8.3% of invested capital has been repaid to investors.

DevCap Portfolio

Property Type: Development

Location: United Kingdom

JV Partner / Asset Manager: Jones Lang LaSalle Corporate Finance

A 95% stake by Acacia, TAIB and Investors in DevCap Portfolio ('Portfolio') which has invested in a diversified portfolio of four distinct UK property developments comprising 401,540 square feet of office, residential, and industrial space, of which 50% is currently either leased or sold. DevCap has invested £22.475 million into the projects of which TAIB's own investment in the Portfolio is £8.3 million. All of the portfolio's underlying senior debts have been refinanced. The portfolio is currently valued (on a fully let-basis) at £303 million.

PRIVATE EQUITY

Taking advantage of market recoveries in the investment geographies, the Bank remained active in 2010 with respect to two Private Equity Funds - TAIB-JAIC Asian Balanced Private Equity Fund ('TJF') and Leverage India Fund ('LIF'). By the end of year, TJF made commitments of about US\$ 4.35 million and made 6 full exits. During the year, TJF participated in 5 IPOs in India and made full exit at listing with an overall return of approximately 1.13x.

The Leverage India Fund ('LIF'), the Bank's India-dedicated private equity fund, established in partnership with IL&FS Investment Management Limited ('IILM'), continued to take advantage of exit opportunities in India and managed to redeem about 6% of invested capital during the year. As of 31 December 2010, the Fund had completed 15 divestments – ten full and five partial – from its portfolio and distributed a total of INR 5,040.4 million (INR 3,632.3 million as principal and balance as preferred return). The Fund, having already repaid entire capital with 7% preferred return to its preferred shareholders, is on track to achieve full disinvestment by the end of 2012.

On the advisory side, TAIB-PDF, the Turkey based corporate finance subsidiary, had one of its most successful years in 2010. Besides tripling its 2009 revenues, 2010 saw TAIB-PDF closing one of its biggest deals together with several others. TAIB-PDF strengthened its position as the leading Turkish M&A Boutique and continued to provide corporate finance and advisory services with a focus on mergers and acquisitions, privatizations, private equity, project financing, distressed debt and financial restructuring projects. TAIB-PDF's projects cover a wide spectrum of sectors including Energy, Infrastructure, Foods, Chemicals, Financial services, Electronics, Construction etc. TAIB-PDF has also strengthened its team in 2010 with experienced professionals. As the exclusive Turkish member, TAIB-PDF hosted the annual Autumn conference of M&A International, the world's leading global mid-market M&A alliance, on its 25th anniversary in Istanbul in October 2010. Over 100 Investment bankers attended from more than 40 countries and the Minister of Finance of Turkey, Mr Mehmet Simsek was the Guest of Honour ".

From Bahrain, the Bank actively sought capital market offerings from India, one of the best performing markets globally, to place them among Clients. Going forward in 2011, apart from active monitoring of our existing portfolio, we shall be focusing primarily on advisory activities leveraging our network in our geographic footprints – GCC, Turkey and India.

RISK MANAGEMENT

Risk is an integral part of the investment banking business. A key tenet of TAIB's disciplined risk management culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. TAIB adopts an enterprise-wide approach to risk management, taking a proactive approach to identify and mitigate the risks.

TAIB strategically relies on five fundamental elements for risk management, as follows:

Board Oversight

The Board of Directors has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves the risk management policies and strategies of the Group.

The Risk Management Committee (RMC) of the executive management of the Bank is responsible for implementing risk management policies, procedures and limits, and for ensuring that monitoring processes are in place. RMC oversees the risk management functions through the independent Risk Management Department of the Bank. Treasury related risks are managed by the Asset and Liability Committee (ALCO) of the senior management. Risk Management, together with Internal Audit, provides independent assurance that all types of risks are being measured and managed in accordance with the policies and guidelines set by the Board.

Financial Leverage

TAIB, with its conservative approach to risk taking, maintains low leverage with Capital Adequacy Ratio (CAR) above the regulatory requirement, minimum 12%. For the year ended December 2010, while the Group's leverage ratio was 3.6, CAR was 12.85%. It has thus built an inherent capacity to absorb contingent shocks of volatility due to political, economic and market related factors.

Balanced Asset Allocation

TAIB diversifies its portfolios to avoid over concentration in any single area, whether geographic, currency, asset- class or investment type. At its core, asset allocation methodology entails specific exposure limits and concentration limits for

various asset classes viz. real estate, private equity, fixed income, funds, inter bank placements, trading securities, etc. Limits are combined with a variety of oversight, measurement and monitoring procedures to ensure adherence to such limits.

Emphasis on Asset Quality

TAIB Group constantly strives to maintain and build quality asset portfolios. To this end, it has strong in-house pre-investment due diligence and post investment monitoring processes in place. It carefully chooses investment exposures and minimizes, manages, caps and hedges risks, wherever possible.

TAIB believes that a prerequisite of successful risk management is the ability to identify, measure and control risks right from the very beginning of the investment process. In order to ensure quality exposure and minimize risks, the following due diligence measures are followed in the pre-investment stage with regard to all exposures:

- In depth examination of known and potential risks by the deal sourcing product divisions (viz. real estate, private equity, asset management and brokerage divisions) corroborated by independent third party due diligence reports on technical, financial, legal, structuring and valuation.
- Critical review and appraisal of the proposals by the Bank's Risk Management Department
- Review and approval by the Risk Management Committee and Executive Committee of the Board, as appropriate under delegated Approval Authority Structure.
- Review by the Board of Directors.

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Post Investment Monitoring

TAIB continuously monitors the performance of its trading assets and long-term investments in real estate, private equity, funds and other assets. Exposures are continuously monitored by originating product divisions as well as RMD at post investment stage for necessary corrective action to mitigate risks on an ongoing basis.

Types of Risk and Risk Mitigation

Within the policies enunciated by the Board of Directors, TAIB's approach to risk management addresses the requirements of its four main areas of business: real estate investments (including property interests held for sale and underwriting commitments) asset management, brokerage and private equity investments. The major risks associated with the Group's business are credit, market, liquidity and operational risks. These risks and the related risk management processes to identify, measure, manage, monitor and control them are as follows:

Credit Risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations, thus causing the Group to suffer a loss in terms of cash flow or market value. As a private bank, the Bank is not engaged in commercial or retail banking activities in the normal course except for its commercial bank licensed subsidiary in Kazakhstan, and loans for margin trading activities and portfolio investments to

selected high net worth clients. The Bank also extends bridge loans under underwriting commitments in respect of real estate investments that are intended to be placed down to the prospective investors within a short period. However, credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities both on and off balance sheet. TAIB measures, monitors and manages credit risk for each borrower and also at the portfolio level. Where appropriate, the Group seeks to minimize its credit exposure risk using a variety of techniques including but not limited to the following:

- Thorough due diligence and appraisal at pre- investment stage;
- Entering netting agreements with counterparties that permit offsetting of receivables and payables;
- Obtaining collateral against the Group's exposure;
- Seeking third party guarantees of the counterparty's obligations;
- Co-investing with well known and reputable partners who have proven skills in the respective asset class, such as real estate, private equity and funds management;
- In real estate investments, focusing on income producing properties with a small proportion of exposure to development properties.
- Diversifying investments into different countries, regions and class of assets for which defined risk management policies and limits are in place;
- Limiting exposures to any single counterparty/investment exposure or group of closely related counterparties/investment exposures within prudent limits, in line with guidelines of the Central Bank of Bahrain;
- Selecting sound banks for interbank placements through a combination of appraisal criteria comprising financial analysis, market research and rating references of External Credit Rating Agencies;
- Diversifying the risk of investment in private equities by participating only through dedicated funds using a portfolio approach and partnering with reputed investment management companies and institutions;
- Outsourcing the management of actively managed funds sponsored by the Bank to multiple, best-in-class external Fund Managers in respective countries, along with the Bank's option to exit at short notice to mitigate the risk of non-performance by any single Fund Manager;
- Board/Investment Committee representation of the Bank in each investee company/SPV.
- Continuous monitoring of performance by respective product division and Risk Management Division of the Bank for timely corrective action to mitigate risks;
- Annual review of exposures and valuation of investments with adequate impairment provision, where necessary.

Market Risk

Market risk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, exchange rates, credit spreads and other asset prices. The Bank's exposure to market risk is a function of trading and asset-liability management activities and its role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimize the impact of losses on earnings and equity capital due to market risk.

A description of the categories of market risk faced by the Group is set out below:

- Interest rate risk is the principal type of market risk faced by the Group and arises from the Group's investment activities in debt securities, asset and liability management and the trading of debt instruments;
- Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. For the Group, the principal foreign exchange risk arises from its foreign exchange trading activities;
- Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices;
- The bank did not have commodity trading activities.

The Group seeks to manage the market risks it faces through diversification of exposures across dissimilar markets and the establishment of hedges in related securities, wherever necessary. To manage the Group's exposures, in addition to exercising business judgment and management experience, the Group utilizes limit structures, including those relating to positions, portfolios, maturities and maximum allowable stop loss and book profit limits.

A major objective of asset and liability management is the maximization of net interest income through the proactive management of the asset and liability repricing profile based on anticipated movements in interest rates. ALCO reviews the interest rate sensitivity analysis and its impact on the capital of the Bank on a monthly basis and directs an appropriate funding plan.

The Bank also does stress tests on the effect, on its equity, of an increase or decrease of the prices in respect of its financial assets. The exposure to price risks, as revealed by such stress tests as at the end of the year, is disclosed in the audited financial statements.

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Liquidity Risk

ALCO has overall responsibility for managing the Bank's liquidity, and the day-to-day management of liquidity is the responsibility of the treasury department.

Liquidity risk within the Bank is managed by specifying threshold minimum balances of cash and near cash assets, whereby such assets are linked to the levels of the Bank's liabilities to customers and banks. The Management Committee and ALCO conduct weekly reviews of funding, cash flow and interest risk factors. ALCO meets on a monthly basis and carries out detailed review of the economic and market scenario, interest rate forecasts, maturity mismatch gap analysis of assets and liabilities, available credit lines and utilization thereof, interest rate sensitivity analysis, and liquidity position of the Bank for setting directions for the liquidity risk management of the Bank.

TAIB strives to maintain a high level of liquidity at all times and has the ability to access the required amount of funds through available lines of credits from a number of banks and short-term placement activities.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks in the Bank are managed through a comprehensive internal control framework which comprises the following salient features:

- A rigid internal check system in place by the separation of front office and back office functions, internal audit and a higher degree of automation of mid-office and back office functions.
- TAIB's internal audit team conducts risk-based audit, both at the transaction level and at the procedural level, across the TAIB Group network and reports its findings to the Audit Committee of the Board. Rectification of deficiencies identified through such audits is carried out on an ongoing basis.
- The Bank has an Operational Risk Management Framework (ORMF) supported by Operational Procedure guidelines and the process for Risk & Control Self-Assessment (RCSA). RCSA is designed to identify the operational risks inherent in the Bank's activities, processes and systems and mitigation of such risks by appropriate remedial action. The risks are mapped to the four cause categories and seven loss event types as per Basel II requirements. The risks inherent in each key processes and sub processes are recorded in a Risk Register with description of causes and impacts for each risk element. The corresponding controls and remedial actions to mitigate these risks are also documented, based on an analysis of the process flow as well as discussions with the process owners. Risk Management carries out exercises for review of the ORMF periodically.
- The Bank is committed to automation of its processes. The overall IT infrastructure of the Bank was upgraded and strengthened during 2008. The core banking system of the Bank implemented in 2001 was upgraded to meet enhanced business needs, customer services and MIS requirements for management decision making and regulatory requirements. The Bank has implemented an automated trading system strengthening the brokerage business line with seamless integration to the core banking system. Final phase of implementation for two software models purchased from Oracle Financials was completed in early 2009 for automating (i) Asset Liability Management information tools and (ii) capital adequacy computation and prudential reporting under the CBB's Basel II guidelines.
- The bank has an active Disaster Recovery (DR) site with all the critical IT systems of the main office replicated at the DR site to ensure Business Continuity.

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BASEL II

As per Central Bank of Bahrain (CBB) requirements, TAIB is subject to the application of the Basel II capital adequacy framework effective January 2008. The CBB's Basel II framework is based on three pillars, viz.

- Pillar 1: Calculation of risk weighted amounts (RWA) and capital requirement.
- Pillar 2: The supervisory review process, including the Internal Capital Adequacy Assessment Process
- Pillar 3: Rules for the disclosure of risk management and capital adequacy information.

The most important implications of Basel II, which have been implemented, are as follows:

Pillar 1: Risk Measurement and Capital Adequacy

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio and sets out the definition and calculations of the Risk Weighted Assets (RWA). The risk weights used to measure the investment exposure risk on the balance sheet range between 100 percent and 200 percent depending upon the type and tenure of each investment. All

banks incorporated in Bahrain are currently required to maintain 12 % minimum capital adequacy on a group wide consolidated basis. TAIB's capital adequacy ratio on a consolidated basis as at December 31, 2010 was 12.85% which was above the minimum required ratio.

Pillar 2: Supervision and Internal Capital Adequacy Assessment Process

The Bank reviews the adequacy of its regulatory capital to support its current and future activities on an ongoing basis. Strategic business objectives and future capital needs are assessed through medium term strategic plans and annual budget plans.

The Bank undertakes stress tests with future projections on conservative estimates of its future revenues, liquidity, asset quality, business growth. The capital adequacy levels at these stress scenarios are computed on current as well as forecasted balance sheets to identify the likely worst case scenarios and to take preventive management actions where necessary. The stress test reports are presented to the Board for necessary capital planning.

The annual dividend payout is prudently determined and proposed by the Board of Directors, to meet shareholder expectations and regulatory capital requirements.

Investment exposures of the Bank are reviewed, fair value assessed and potential losses accounted for by way of impairment provisions on a quarterly basis. The planned versus actual capital position is also monitored and reported to the Senior Management and Board on a quarterly basis. Capital requirements are assessed for credit, operational and market risks. The composition of capital in terms of Tiers I, II and III is analyzed to ensure capital stability, and to reduce volatility in the capital structure.

In January 2011, the Board has decided to take such steps as necessary for increasing paid up share capital of the Bank by raising additional capital through rights issue subject to obtaining necessary regulatory approvals. The Bank is confident of maintaining capital adequacy at optimal levels and satisfying regulatory capital requirements on ongoing basis.

Pillar 3: Public Disclosure

The objective of Pillar 3 is to improve market discipline through effective public disclosures to complement requirements under Pillar 1 and Pillar 2. In addition to the applicable International Financial Reporting Standards, the Bank complies with CBB's public disclosure norms under Pillar 3. Pillar 3 disclosures for half year ending June and year ending December are being placed on the Bank's website on a regular basis commencing with June 2008. Pillar 3 disclosures for the full year 2010 are an integral part of this annual report.

PILLAR 3

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1. Introduction

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. This report consists of the Basel Committee's Pillar 3 disclosure requirements in accordance with the Public Disclosures Module of the CBB's rule book. The objective of Pillar 3 is to improve market discipline through effective public disclosures.

Under the CBB's Basel II framework, all banks incorporated in Bahrain are currently required to maintain 12% minimum capital adequacy on a group wide consolidated basis. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5% above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5% as applicable, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires the Group to maintain an effective minimum capital adequacy ratio of 12.5% on consolidated basis.

The Bank has adopted the standardized approach for Credit Risk, Market Risk and Operational Risk to determine the capital requirement.

As at 31 December 2010, the Group's total risk weighted assets amounted to US\$ 259.26 million and total regulatory capital amounted to US\$ 33.32 million. Accordingly, total Capital Adequacy Ratio on a consolidated basis for the group was 12.85%. This ratio exceeds the minimum capital requirements under the CBB's Basel II framework.

The Bank views the Basel II Pillar 3 disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

This report should be read in conjunction with the Bank's consolidated Financial Statements including notes to the consolidated Financial Statements for the year ended 31 December 2010. There is a growing convergence of disclosures under International Financial Reporting Standards (IFRS) and the Basel II Pillar 3 disclosure requirements, which are in addition to or in some cases, serve to clarify the disclosure requirements of IFRS.

All figures presented in this report are in thousands of United States Dollars as at 31 December 2010 unless otherwise stated.

2. Pillar 3 Disclosures

2.1 Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholders' equity is also considered while maintaining a balance between the higher return that might be possible with leveraging and security afforded by sound capital position to absorb risks. The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalized status under regulatory requirements. The Bank has Internal Capital Allocation Assessment Process (ICAAP) with the supporting Risk Management Framework and Risk Management Policies and Procedures to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include strategic risk, reputation and legal risk, concentration risk, liquidity risk, interest rate risk in the banking book etc. The ICAAP also keeps in perspective the Bank's strategic plans and credit growth expectations and the impact of all these on maintaining adequate capital levels. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank's subsidiaries operate. The Bank has complied with regulatory capital requirements at the year ended 31 December 2010.

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights. The Bank does not have any other type of capital instruments. The Bank's Tier 1 capital comprises of share capital, share premium, eligible reserves and adjusted for retained profit or losses. The eligible reserves in Tier 1 exclude gains arising on asset revaluation reserve and re-measurement to fair value of available-for-sale financial assets. Further, the following items are adjusted from Tier 1 capital as per CBB guidelines:

- Unrealized losses on available-for-sale financial assets and goodwill are deducted.
- Losses for the year 2010 pursuant to external audit are also deducted.

The Bank's Tier 2 capital comprises 45% of asset revaluation reserve and unrealized gains arising on the re-measurement to fair value of available-for-sale financial assets.

Deductions relating to exposures in excess of 15% threshold of available capital have also been made from the Tier 1 and Tier 2 capital of the Bank as required by the CBB guidelines. The Bank does not have Tier 3 capital as at 31 December 2010.

The Bank has neither any subsidiary engaged in insurance business nor investments in insurance companies.

Table 2 – Capital Structure and Capital Adequacy

	Tier 1	Tier 2	Total
Share capital	106,858	-	106,858
Share premium	1,510	-	1,510
Statutory reserve	22,908	-	22,432
General reserve	6,951	-	7,427
Retained profit brought forward	(47,327)	-	(47,327)
Minority interest in consolidated subsidiaries	614	-	614
Goodwill on acquisition	(3,607)	-	(3,607)
Current cumulative net losses	(38,613)	-	(38,613)
Unrealised gross losses arising from fair valuing equity securities	(62)	-	(62)
Asset revaluation reserve - property, plant and equipment	-	1,904	1,904
Unrealised gains arising from fair valuing equities	-	630	630
Total Available Capital	49,232	2,534	51,766
Less: Deduction relating to exposures individually in excess of 15% of available capital	(15,914)	(2,534)	(18,448)
Total Eligible Capital	33,318	-	33,318
Risk weighted exposures:			
- Credit risk			163,181
- Operational risk			46,496
- Market risk			49,586
Total Risk weighted exposure			259,263
Consolidated Capital Adequacy Ratio (%) : Tier 1 & Total			12.85%

The Bank does not have Tier 3 capital as at 31 December 2010.

Table 3 – Capital Adequacy of the Bank's significant bank subsidiaries.

Under Basel II	Subsidiaries	
	TAIB Kazak Bank JSE Kazakhstan	TAIB Yatirim Bank A.S Turkey
Tier 1 – Capital Adequacy Ratio (%)	148.77	65.15
Total – Capital Adequacy Ratio (%)	226.60	65.15

2.2 Credit Risk

As a private bank, the Bank is not engaged in commercial or retail banking activities in the normal course of business except for its commercial bank licensed subsidiary in Kazakhstan, and loans for margin trading activities and portfolio investments to selected high net worth clients. However, credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities both on and off balance sheet.

The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB's Basel II capital adequacy framework for the standardized approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets ("RWA") are as follows:

Sovereigns

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are zero per cent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings. Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a zero per cent risk weighting.

Banks

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

Corporates

Claims on corporates are risk weighted based on their external credit ratings. A 100% risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero per cent risk weight.

Equities Investments

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale financial assets portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

A 100% risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150%. Investments in rated funds are risk weighted according to the external credit rating.

Real Estates Investments

Holdings of real estates, owned directly or indirectly by the Bank other than own premises, are risk weighted at 200% and premises occupied by the Bank are risk weighted at 100% as per CBB guidelines.

In addition to the standard portfolios, other exposures are risk weighted as under:

Past due exposures

In accordance with the Bank's policy and CBB guidelines, loans on which payment of interest or repayment of principal are 90 days past due are defined as non-performing. All past due loan exposures, irrespective of the categorization of the exposure, are classified separately under the past due exposures asset class. A risk weighting of either 100% or 150% is applied depending on the level of specific provision maintained against the exposure.

Other assets are risk weighted at 100%.

External Credit Assessment Institutions (ECAI)

The Bank uses ratings issued by Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures.

Table 4 – Capital requirement for credit risk

Basel II Asset Classification	Rated	Unrated exposure (*)	Total exposure (*)	Average risk weight	RWA	Capital charge
Cash Items	-	850	850	0%	-	-
Cash items in the process of collection	-	-	-	0%	-	-
Claims on sovereigns	31,588	-	31,588	16%	5,016	602
Claims on banks	72,580	11,045	83,625	45%	37,645	4,517
Claims on corporates	-	16,059	16,059	100%	16,059	1,927
Past due exposures	-	4,786	4,786	147%	7,018	842
Investment in equity portfolio	138	6,455	6,593	149%	9,820	1,178
Investment in funds	-	702	702	150%	1,053	126
Holding of Real Estate including premises occupied by the bank	-	41,055	41,055	182%	74,524	8,943
Others Assets	-	12,046	12,046	100%	12,046	1,446
Total Credit Risk under the Standardized Approach	104,306	92,998	197,304	83%	163,181	19,581

(*) Exposure post credit risk mitigation and credit conversion.

Table 5 – Gross credit exposure

Balance sheet Items:	Gross credit exposure	Average gross credit exposure
Cash and balances with central banks	72,717	70,392
Placements with banks	42,240	77,932
Loans and advances	16,591	21,343
Available-for-sale financial assets	30,036	42,176
Investment in associate	7,765	14,443
Investment property	17,186	22,156
Property and equipment	13,429	16,010
Other assets	5,376	9,111
Total on balance sheet credit exposure	205,340	272,377
Off balance sheet items:		
Direct credit substitutes	8,045	15,119
Notes issuance and revolving underwriting facilities	300	316
Derivatives - foreign exchange contracts	185	452
Total off balance sheet credit exposure	8,530	15,887
Total credit exposure (*)	213,870	288,264

(*) Exposure before credit risk mitigation.

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The average gross credit exposure is calculated based on balances as at 31 December 2009, 30 June 2010 and 31 December 2010.

Table 6 – Credit exposure by geographical segments

Credit exposure	North America	Europe	Middle East	Rest of Asia	Total
Cash and balances with central banks	733	1,972	9,797	60,215	72,717
Placements with banks	7,830	1,159	30,460	2,791	42,240
Loans and advances	-	-	11,030	5,561	16,591
Available-for-sale financial assets	1,707	8,890	68	19,371	30,036
Investment in associate	-	3,078	4,687	-	7,765
Investment property	11,075	-	5,269	842	17,186
Property and equipment	9	1,865	10,095	1,460	13,429
Other assets	2,216	384	1,058	1,718	5,376
Off balance sheet items	-	80	5,636	2,814	8,530
Total	23,570	17,428	78,100	94,772	213,870

Exposure to Europe comprises of United Kingdom, France and Turkey

Exposure to North America comprises United States of America

Exposure to Middle East comprise of Bahrain, UAE, Saudi Arabia, Oman, Kuwait and Qatar.

Exposure to Rest of Asia comprises of China, India and the Far East.

Table 7 – Credit exposure by sectoral segments

	Cash, balances with central Banks and placements	Loans and advances	Investment	Others	Off- balance sheet items	Total
Financial services	114,904	-	-	3,395	5,336	123,635
Government	53	-	-	-	-	53
Structured finance	-	-	2,009	-	-	2,009
Trade and transport	-	1,286	-	-	1,119	2,405
Real estate	-	-	32,679	-	-	32,679
Equity funds	-	-	20,274	53	-	20,327
Others	-	15,305	25	15,357	2,075	32,762
Total	114,957	16,591	54,987	18,805	8,530	213,870

Table 8 – Related party transaction

	Associates	Directors and senior management	Total
<u>Income Statement :</u>			
Interest income	-	3	3
Interest expense	3,925	184	4,109
Reimbursement of Directors expenses	-	48	48
Key management compensation	-	980	980
<u>Balance Sheet :</u>			
Deposits from customers	59,020	24,277	83,297

The Bank carries out transactions with related parties, defined as shareholders and directors of the Bank and its subsidiaries, and businesses in which shareholders and directors, individually or combined, have control or significant influence, in the normal course of business.

Table 9 - Discussion on lending to highly leveraged and other high risk counterparties:

The Group does not have any exposure to highly leveraged counterparties.

Table 10 – Credit concentration greater than 15% of individual obligor limit.

	Amount
Bank	-
Non bank	33,978

Table 11 – Counterparty credit risk in derivative transaction

	Notional amount	Credit exposure	Capital requirement
Direct credit substitutes	8,045	8,045	965
Notes issuance and revolving underwriting facilities	600	300	36
Foreign exchange contracts	11,858	185	22
Total	20,503	8,530	1,023

Table 12 – Credit exposure by maturity

Exposures	Below 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 to 10 years	Total
Cash and balances with central banks	72,717	-	-	-	-	72,717
Placements with banks	33,989	-	8,251	-	-	42,240
Loans and advances	10,047	1,973	1,710	2,861	-	16,591
Available-for-sale financial assets	471	2,197	2,877	18,544	5,947	30,036
Investment in associate	-	-	-	7,765	-	7,765
Investment property	-	-	-	17,186	-	17,186
Property and equipment	958	-	503	10,940	1,028	13,429
Other assets	4,391	2	329	441	213	5,376
Total on balance sheet	122,573	4,172	13,670	57,737	7,188	205,340
Off balance sheet	904	650	6,752	224	-	8,530
Total	123,477	4,822	20,422	57,961	7,188	213,870

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Table 13 – Provision for investments - sectoral segments

	Property interest held for sale equity	Private equity	Funds	Total
At 1 January 2010	28,624	8,246	2,506	39,376
Charge for the year	3,138	744	-	3,882
Amounts utilized	-	(739)	-	-
Exchange rate movement	-	(4)	-	(4)
At 31 December 2010	31,762	8,247	2,506	42,515

Table 14 – Provision for investments and related exposures

	Gross exposure	Provisions	Net exposure
Property interests held for sale - equity	36,740	31,762	4,978
Private equity investments	8,247	8,247	-
Funds	2,506	2,506	-
Total	47,493	42,515	4,978

During 2010, fair value loss relating to available-for-sale financial assets amounting to US\$ 0.2 million (2009: 1.1 million) was charged directly to the income statement.

Table 15 – Provision for investments and related exposure - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	22,587	21,321	355	3,230	47,494
Specific impairment provision	(22,587)	(16,400)	(355)	(3,173)	(42,515)

The Bank does not have any significant collective impairment provision at 31 December 2010

Table 16 – Provision for loans and advances - sectoral segments

	Gross Exposure	Specific Provision
Financial Services	1,535	(1,535)
Trade	18,618	(4,295)
Technology	568	(568)
Other Sectors	9,760	(7,914)
Total	30,481	(14,312)

No provision has been made on impaired loans amounting to US\$ 3.1 million as the Bank holds collateral in the form of shares and cash. Impaired loans are past due over 3 years.

Table 17 – Provisions for loans and advances - geographical segments

	North America	Europe	Middle East	Rest of Asia	Total
Exposure	1,537	4,604	14,764	9,576	30,481
Specific impairment provision	(1,537)	(4,605)	(4,155)	(4,015)	(14,312)

Table 18 – Provision movement for loans and advances - sectoral segments

	Financial Institutions	Corporate	Retail	Total
At 1 January 2010	4,649	5,920	2,403	12,972
Charge for the year	-	292	1,225	1,517
Reversals & Other Movements	-	(1)	(176)	(177)
At 31 December 2010	4,649	6,211	3,452	14,312

2.3 Credit Risk Mitigation

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

Adjusted exposure amount: The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

Collateral and valuations principles

The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered in one of the subsidiaries (Kazakhstan) include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collaterals recognized under Basel II are taken into consideration and there are no significant concentrations in such eligible collaterals taken for credit risk mitigation.

The Bank's credit policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuers as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the credit worthiness and financial standing and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

Table 19 – Eligible financial collateral

Basel II Asset Classification	Gross credit exposure	Eligible Credit Risk Mitigant (CRM)	Net exposure
Cash items	850	-	850
Claims on sovereigns	31,588	-	31,588
Claims on banks	95,533	(11,908)	83,625
Claims on corporates	20,717	(4,658)	16,059
Past due exposures	4,786	-	4,786
Investment in equity portfolio	6,593	-	6,593
Investment in funds	702	-	702
Holding of Real Estate including premises occupied by the Bank	41,055	-	41,055
Others Assets	12,046	-	12,046
Total Credit Risk under the Standardized Approach	213,870	(16,566)	197,304

On and off-balance sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

2.4 Market Risk

The Bank uses the Standardized Approach for assessing the capital charge for market risk to cover interest rate risk, equity risk and foreign exchange risk. Total risk weighted assets are determined by multiplying the capital charge by 12.5.

The Bank has documented policies and procedures for the management of the trading portfolio. The Group seeks to manage the market risks it faces through diversification of exposures across dissimilar markets and the establishment of hedges in related securities, wherever necessary. To manage the Group's exposures, in addition to exercising business judgment and management experience, the Group utilizes limit structures, including those relating to positions, portfolios, maturities and maximum allowable stop loss and book profit limits.

The back office in the Corporate Services Division, which is independent of the front office, is responsible for valuation which is done on an ongoing basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

The Bank does not have any exposures to commodity risk.

Table 20 – Capital requirement for components of market risk

	RWA	Capital requirement	Minimum value	Maximum value
Interest rate position risk	50	4	4	44
Equities position risk	9,950	796	761	869
Foreign exchange risk	39,286	3,143	2,430	3,143
Total general market risk	49,286	3,943	3,195	4,056
Total specific market risk	300	24	24	620
Total	49,586	3,967	3,219	4,676

2.5 Operational Risk

The Bank constantly strives to minimize operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organization and enhanced where necessary. A rigid internal check system is in place by the separation of front office and back office functions, internal audit and a higher degree of automation of mid-office and back office functions.

The Bank has in place an Operational Risk Management Framework (ORMF) supported by process for Risk and Control Self-Assessment (RCSA) and Operational Procedure guidelines. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Bank uses the standardized approach for calculating operational risk capital charges. In this approach, the Bank's activities are divided into eight business lines according to Basel II guidelines. The capital charge for each business line is calculated by multiplying gross income by a factor (denoted by beta) assigned to that business line. Total risk weighted assets are determined by multiplying the capital charge by 12.5.

Table 21 – Capital requirement for Operational Risk

	2009	2008	2007
Gross income	7,101	5,214	39,884
Capital charge	1,431	3,750	5,978
Average of capital charges for 3 years			3,720
Operational Risk Weighted Exposure			46,496

2.6 Equity Position in Banking Book

The Bank holds certain investments in equity securities with the objective of gaining strategic advantage as well as capital appreciation on sale thereof. All equity positions in the Banking book are classified as "Available-for-Sale". The accounting policies for "Available-for-Sale" instruments are described in detail in the Financial Statements under "Significant Accounting Policies".

Table 22 – Equity position in banking book

	Gross risk-weighted exposures	Capital requirement
Listed	138	11
Unlisted	6,455	516
Total	6,593	527

Table 23 – Unrealized gains and losses

	Amount	
Total unrealized gains and losses recognized on the balance sheet but not through the income statement		1,337
Fair value reserve (net)		
Unrealized gains and losses included in Tier One and Tier Two capital		
	Tier 1	Tier 2
Fair value reserve:		
Unrealized gross losses arising from fair valuing equity securities	62	
Unrealized gains arising from fair valuing equity securities		630
Asset revaluation reserve:		
Property, plant and equipment		1,904

2.7 Interest Rate Risk in Banking Book

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilized to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels. Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and

positions are adjusted if deemed necessary. In addition, the Asset Liability Committee (“ALCO”) regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket.

Table 24 – Interest rate risk in banking book

Assets	Less than 3 months	3 months to 1 year	Over 1 year	Non- Interest bearing	Total
Cash and balances with central banks	-	-	-	72,560	72,560
Placements with banks	33,989	8,251	-	-	42,240
Financial Assets at fair value through profit or loss	-	-	302	4,976	5,278
Loans and advances	11,598	1,710	2,860	-	16,169
Available-for-sale financial assets	1,572	2,744	10,012	51,977	66,305
Investment in associate	-	-	-	19,334	19,334
Investment property	-	-	-	24,065	24,065
Property and equipment	-	-	-	14,768	14,768
Intangible assets	-	-	-	989	989
Goodwill	-	-	-	3,607	3,607
Other assets	-	-	-	5,376	5,376
Total	47,159	12,706	13,174	197,653	270,691
Liabilities					
Deposits from banks	20,000	-	-	778	20,778
Deposit from customers	75,251	15,532	715	62,940	154,438
Other liabilities	-	-	-	29,162	29,162
Long term debt	-	7,407	-	-	7,407
Non-controlling interests - Funds -	-	-	-	434	434
Total	95,251	22,939	715	93,314	212,219
Interest rate sensitivity gap	(48,092)	(10,233)	12,459	-	-
Cumulative Interest rate sensitivity gap	(48,092)	(58,326)	(45,866)	-	-

There are no interest rate sensitive off-balance sheet exposures at 31 December 2010.

Table 25 – Sensitivity analysis – Interest rate risk

Annualized	Up to 3 Months	3 Months to 1 Year	Over 1 Year	Total
at 50 bps increase	(240)	(51)	62	(229)
at 100 bps increase	(481)	(102)	125	(458)
at 200 bps increase	(962)	(204)	249	(917)

2.8 Discussion on impact of acquisition:

No acquisition has taken place during the year 2010.

2.9 Discussion on changes in the capital structure:

At the Board meeting held on 20 January 2011, it was resolved to take such steps as may be necessary in order to prepare plans for increasing the paid up capital of the Bank by raising additional capital through a rights issue subject to obtaining the necessary regulatory approvals

CORPORATE GOVERNANCE

The Ministry of Industry and Commerce has issued a Corporate Governance Code which sets out several Principles with which joint stock companies, including TAIB Bank, are expected to be fully compliant by the end of 2011.

The Principles set out in the Code have also been incorporated into the Central Bank of Bahrain's own Rulebook, High Level Controls.

The Bank has already reviewed the requirements of both the Code and the Rulebook and is progressing towards full compliance within the prescribed time-frame.

BOARD OF DIRECTORS

The Board of Directors approves the overall business plans and budgets of the Bank. Additionally, the Board has established the following Board Committees:

- Executive Committee
- Audit Committee
- Insider Trading Committee
- Nomination and Remuneration Committee

Executive Committee

To enable the ongoing involvement of the Board of Directors in administering and managing the affairs of the Bank, the Board is assisted by an Executive Committee. All credit/investment proposals above a threshold limit as per Approval Authority Matrix approved by the Board are approved by the Executive Committee. The decisions of the Executive Committee are placed before the Board of Directors at the next regular meeting.

Audit Committee

The audit process of the Bank is monitored by the Audit Committee of the Board of Directors. The Head of Internal Audit Department reports all findings on internal control systems followed by departments and subsidiaries directly to the Audit Committee. A summary of all compliance and regulatory related matters is also placed before the Audit Committee by the Head of Compliance and discussed at each meeting of the Committee. The Audit Committee also oversees the risk related issues.

Insider Trading Committee

The Insider Trading Committee is responsible for overseeing insider trading activities and ensuring the Bank's compliance with the rules and guidelines of the Central Bank of Bahrain and the Bahrain Stock Exchange.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee advises the Board from time to time on composition of and changes to the Board structure and any committee of the Board. The committee is responsible for assessing the competencies of potential candidates and recommending for appointment as directors of the Board, reviewing the performance of the directors, assessing the training needs of directors and consider any succession issue relating to the Board or any of its committees, assuring that plans are in place for orderly succession of senior management, reviewing remuneration policy of the Bank and remunerating directors and officers fairly and responsibly.

Committees of the Management

Senior Management is responsible for the day-to-day management of the Bank, entrusted to it by the Board. The Senior Management of the Bank is headed by the Chief Executive Officer, who is assisted by a team of Senior managers.

The following committees and functions assist the Chief Executive Officer in the management of the Bank.

Risk Management Committee

This Committee, comprising Senior Management of the Bank, reviews and analyses the risks underlying any exposure that is undertaken by the Bank. It approves various kinds of limits - investment, credit, inter-bank, trading and/ or exposure limits - within the Bank's overall guidelines. The maximum individual exposure that this committee has the power to approve is up to US\$ 3 million. When such powers are exercised, the details of the exposures approved are placed before the Board of Directors for their post facto ratification.

Asset Liability Committee

The Asset and Liability Management committee (ALCO), which is chaired by the Group Treasurer and has senior executives of the Bank as members, has overall responsibility for managing the balance sheet and liquidity of the Bank. ALCO provides broad guidelines with regard to minimum liquid assets to be maintained and uses a maturity ladder approach for managing and monitoring the liquidity risk.

Policies, procedures and several financial and management information data are available on the Bank's intranet site for the benefit and guidance of the internal staff.

Members of Committees

The Members of the Committees of the Board of Directors are as follows:

Audit Committee

- Chairman – (Vacant)
- Member – Mr. Fadel Al Ali
- Member – Mr. Masood Mahmood

Insider Trading Committee

- Chairman – (Vacant)
- Member – Mr. Fadel Al Ali
- Member – Mr. Masood Mahmood

Nomination and Remuneration Committee

- Chairman – Mr. Abdulrazaq Al Jassim
- Member – Mr. Abdulaziz Al Rashed
- Member – Mr. Mohamed Saleh
- Member – Mr. Khalid Al Shamsi (apptd 1 Sep 10)

Executive Committee

- Chairman – Mr. Abdulrazaq Al Jassim
- Member – Mr. Abdulaziz Al Rashed
- Member – Mr. Mohamed Saleh
- Member – Mr. Khalid Al Shamsi (apptd 1 Sep 10)

FINANCIAL STATEMENTS

TAIB Bank B.S.C. (c)

Consolidated financial statements for the year ended 31 December 2010

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TAIB Bank B.S.C. (c)

Directors' report for the year ended 31 December 2010

The Directors are pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2010.

Consolidated financial statements

The consolidated financial statements have been prepared incorporating the financial statements of TAIB Bank B.S.C. (c) (the "Bank") and its subsidiaries (collectively the "Group").

Principal activities

TAIB Bank B.S.C. (c) holds a wholesale banking license issued by the Central Bank of Bahrain.

The Bank has its registered office at TAIB Tower, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank's shares are listed on the Bahrain Stock Exchange.

The principal activities of the Bank and its subsidiaries are wealth management and wealth transfer products and services, asset management, private equity investments, real estate investments, provision of financial and securities advisory services and brokerage services.

Results and financial position

The results for the year ended 31 December 2010 and the financial position of the Group as at that date are set out in the accompanying consolidated financial statements.

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Dividend

The Directors do not propose to recommend to the Annual General Meeting to pay dividend for the year ended 31 December 2010 (2009: Nil).

Directors

The following Directors served during the year ended 31 December 2010:

Mr. Abdulrazaq Mohammed Abdulla Ali Al Jassim (Chairman)

Sh. Abdulaziz R AlRashed (Vice Chairman)

Mr. Ibrahim Abdulmohsen Alsultan

Mr. Khalid Nasser Humaid Al Shamsi (appointed on 28 June 2010)

Mr. Mohamed Ali Saleh Abbas

Mr. Fadhel Abdulbaqi Abu Alhasan AlQaed Al Ali

Mr. Masood Mohd Mohd Sharif Mahmood

At 31 December 2010, Directors and their related parties held 15.59% (2009: 22.14%) of the share capital of the Bank.

A sum of US\$ 48,000 (2009: US\$ 105,000) is to be paid to the Directors of the Bank, towards reimbursement of their expenses for 2010.


Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution proposing their reappointment will be placed before the Annual General Meeting.

By order of the Board of Directors



Abdulrazaq Mohammed Abdulla Ali Al Jassim
Chairman



Abdulaziz R AlRashed
Vice Chairman

24 February 2011
Bahrain

AUDITOR'S REPORT



Pricewaterhouse Coopers Bahrain Limited
P.O. box 21144, 9th Floor, BMB Centre
Manama, Kingdom of Bahrain
CR No. 71676
Telephone: +973 17 540554
Facsimile: +973 17540556
Email: pwc_bahrain@bh.pwc.com
Website: <http://www.pwc/middle.east>

Independent auditor's report to the shareholders of TAIB Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of TAIB Bank BSC (c) (the Bank) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

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 International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on regulatory requirements

Further, as required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2010.

27 February 2011
Manama, Kingdom of Bahrain

Consolidated statement of financial position

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Note	As at 31 December	
		2010	2009
ASSETS			
Cash and balances with central banks		72,560	68,225
Placements with banks		42,240	92,629
Financial assets at fair value through profit or loss	5	5,278	5,435
Loans and advances	6, 8	16,169	25,245
Available-for-sale financial assets	9	66,305	77,771
Investment in associates	10	19,334	20,205
Investment property	11	24,065	26,277
Property and equipment	12	14,768	21,360
Intangible assets		989	1,514
Goodwill		3,607	3,730
Other assets	13	5,376	5,715
Total assets		270,691	348,106
LIABILITIES			
Deposits from banks		20,778	24,525
Deposits from customers	8, 14	154,438	193,907
Other liabilities	15	29,162	17,313
Long term debt		7,407	7,516
		211,785	243,261
Non-controlling interests - Funds	33	434	791
Total liabilities		212,219	244,052
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	16	112,362	112,362
Less: Treasury shares	16	(5,504)	(4,530)
Reserves	17	(49,001)	(4,816)
		57,857	103,016
Non-controlling interests in equity		615	1,038
Total equity		58,472	104,054
Total equity and liabilities		270,691	348,106

These consolidated financial statements have been approved for issue by the Board of Directors and signed on its behalf on 24 February 2011 by:



Abdulrazaq Mohammed Abdulla Ali Al Jassim
Chairman



Abdulaziz R AlRashed
Vice Chairman

The notes are an integral part of these consolidated financial statements.

Consolidated income statement

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009
Interest and similar income	18	3,847	5,633
Interest expense	19	(7,038)	(6,419)
		(3,191)	(786)
Fee and commission income	20	5,168	6,032
Net trading income	21	788	734
Gain on disposal of available-for-sale financial assets		971	1,167
Changes in fair value of investment property	11	(2,603)	(3,059)
Foreign exchange income		1,421	102
Other operating income		5,174	4,539
Total operating income		7,728	8,729
Staff costs	22	(10,179)	(12,963)
Other operating costs	23	(12,150)	(11,666)
Finance cost		(54)	(77)
Provisions for impairment of loans, investments and other assets	7	(4,651)	(8,958)
Other provisions	7	(18,754)	-
Share of loss from an associate	10	(1,001)	(939)
Loss before taxation		(39,061)	(25,874)
Overseas income tax expense		21	(149)
Loss for the year		(39,040)	(26,023)
Attributable to:			
Equity holders of the Bank		(38,613)	(26,076)
Non-controlling interests in equity		(427)	53
		(39,040)	(26,023)
Earnings per share for loss attributable to the equity holders of the Bank during the year (expressed in United States Dollars per share – Basic and diluted)	24	(\$ 0.360)	(\$ 0.242)

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These consolidated financial statements have been approved for issue by the Board of Directors and signed on its behalf on 24 February 2011 by:



Abdulrazaq Mohammed Abdulla Ali Al Jassim
Chairman

Abdulaziz R AlRashed
Vice Chairman

The notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Year ended 31 December	
	2010	2009
Loss for the year	(39,040)	(26,023)
Other comprehensive income/(loss):		
Exchange difference on translation of foreign operations	(293)	(2,567)
Exchange difference on retained earnings and other reserves	388	(733)
Disposal of available-for-sale financial assets	(398)	(119)
Movement in fair value of available-for-sale financial assets	997	383
Fair value reserve recycled to the income statement	106	1,072
Share of other comprehensive loss from associate	130	(180)
Revaluation of property and equipment	(4,867)	(864)
Other comprehensive income	56	38
Other comprehensive loss for the year	(3,881)	(2,970)
Total comprehensive loss for the year	(42,921)	(28,993)
Attributable to:		
Equity holders of the Bank	(42,498)	(29,057)
Non-controlling interests in equity	(423)	64
	(42,921)	(28,993)

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2010

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Attributable to equity holders of the Bank										Non-controlling interests	Total equity
	Reserves											
	Share capital	Treasury shares	Share premium	Capital and statutory reserve	General reserve	Revaluation Reserve	Translation of foreign operations	Fair value reserve	Retained earnings	Total		
At 1 January 2010	112,362	(4,530)	3,197	22,904	6,977	9,098	(14,103)	502	(33,391)	(4,816)	1,038	104,054
Purchase of treasury shares	-	(974)	(1,687)	-	-	-	-	-	-	(1,687)	-	(2,661)
Total comprehensive loss for the year	-	-	-	4	(26)	(4,866)	(293)	835	(38,152)	(42,498)	(423)	(42,921)
At 31 December 2010	112,362	(5,504)	1,510	22,908	6,951	4,232	(14,396)	1,337	(71,543)	(49,001)	615	58,472

Consolidated statement of changes in equity for the year ended 31 December 2009

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Attributable to equity holders of the Bank										Non-controlling interests	Total equity
	Reserves											
	Share capital	Treasury shares	Share premium	Capital and statutory reserve	General reserve	Revaluation Reserve	Translation of foreign operations	Fair value reserve	Retained earnings	Total		
At 1 January 2009	112,362	(4,530)	3,197	22,985	6,886	9,967	(11,536)	(654)	(6,604)	24,241	974	133,047
Total comprehensive loss for the year	-	-	-	(81)	91	(869)	(2,567)	1,156	(26,787)	(29,057)	64	(28,993)
At 31 December 2009	112,362	(4,530)	3,197	22,904	6,977	9,098	(14,103)	502	(33,391)	(4,816)	1,038	104,054

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Year ended 31 December	
	2010	2009
Cash flows from operating activities:		
Loss for the year before taxation and non-controlling interests in equity	(39,061)	(25,874)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Unrealized gain on financial assets at fair value through profit or loss	86	131
Changes in fair value of derivative financial instruments	50	13
Changes in fair value of investment properties	2,603	3,059
Provision for impairment	23,405	8,958
Share of loss from associate (Note 10)	1,001	939
Depreciation and amortisation (Note 23)	1,873	1,852
Cash flows from operating profits before changes in operating assets and liabilities	(10,043)	(10,922)
Movements in operating assets and liabilities:		
Financial assets at fair value through profit or loss	71	1,026
Loans and advances	7,554	2,831
Other assets	289	(1,533)
Deposits from banks	(3,747)	(27,405)
Deposits from customers	(39,469)	38,164
Other liabilities	(7,385)	(4,158)
Currency translation and other adjustments	95	(3,300)
Net cash used in operating activities	(52,635)	(5,297)
Cash flows from investing activities:		
Net movement in available-for-sale financial assets	9,242	2,897
Net movement in investment property (Note 11)	(391)	(311)
Net acquisition of property and equipment	500	(1,616)
Net cash provided by investing activities	9,351	970
Cash flows from financing activities:		
Net movement in treasury shares	(2,661)	-
Net movement in long term debt	(109)	(100)
Net cash used in financing activities	(2,770)	(100)
Net decrease in cash and cash equivalents	(46,054)	(4,427)
Cash and cash equivalents at the beginning of the year	160,854	165,281
Cash and cash equivalents at the end of the year (Note 25)	114,800	160,854

The notes are an integral part of these consolidated financial statements.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

1 Incorporation and principal activity

TAIB Bank B.S.C. (c) (the “Bank”) was incorporated in Bahrain as an Exempt Company and holds a wholesale banking license issued by the Central Bank of Bahrain. The Bank has its registered office at TAIB Tower, Diplomatic Area, Manama, the Kingdom of Bahrain. Its shares are listed on the Bahrain Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are wealth management and wealth transfer products and services, asset management, private equity investments, real estate investments, provision of financial and securities advisory services and brokerage services.

2 Significant accounting policies

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

2.1 Basis of preparation

The Group’s consolidated financial statements for the year 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. The consolidated financial statements comprise the consolidated income statement and the consolidated statement of comprehensive income (shown as two statements), the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes.

The consolidated financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held at fair value through profit or loss, all derivative contracts and investment properties, which have been measured at fair value. Property and equipment are stated at depreciated revalued amounts.

In forming the opinion as to going concern, the Board has reviewed cashflow forecasts based upon its assumptions as to trading as well as taking into account the disposal of certain assets and the receipt of related party deposits. The Board has also reviewed a number of alternative scenarios modeling the business variable and key risks and uncertainties. Based upon these, the Board has concluded that the Group has access to adequate liquidity and therefore confirms their belief that it is appropriate to use the going concern basis of preparation for the financial statements of the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. Other than the basis of preparation as set out above, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.1.1 Changes in accounting policy and disclosures

(a) Standards, amendments and interpretations effective and relevant to the Group's operations

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), 'Consolidated and separate financial statements', at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

Management has assessed the impact of the above amendments and interpretations to the published standards and has concluded that they would not have any impact on these consolidated financial statements.

(b) Standards, amendments and interpretations effective and not relevant to the Group's operations

The following standards and amendments to the existing standards are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but are not currently relevant for the Group.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for periods commencing 1 July 2009);
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective for periods commencing 1 July 2009);
- IFRIC 18, 'Transfers of assets from customers' (effective for periods commencing 1 July 2009);
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments' (effective for periods commencing 1 July 2009);

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) Standards, amendments and interpretations effective and not relevant to the Group's operations (continued)

- IAS 1 (amendment), 'Presentation of financial statements' relating additional clarification to the potential settlement of a liability by the issue of equity (effective 1 January 2010);
- IAS 36 (amendment), 'Impairment of assets' relating to clarification of the largest cash-generating unit (or group of units) (effective 1 January 2010);
- IFRS 2 (amendment), 'Group cash-settled share-based payment transactions' relating to expansion on the guidance of IFRIC 11 (effective 1 January 2010);
■ IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations' relating to disclosures required in respect of non-current assets classified as held for sale or discontinued operations;

(c) Standards, amendments and interpretations not effective and not early adopted by the Group

The following interpretations/revisions to standards were issued but not effective and the Group has not early adopted.

- Revised IAS 24 (revised), 'Related party disclosure' mandatory for periods beginning on or after 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010).
- 'Classification of rights issue' (amendment to IAS 32), (effective for periods commencing 1 February 2010).
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14) (effective for periods commencing 1 January 2011).

Management has assessed the impact of the above standards, amendments and interpretations to the published standards on the consolidated financial statements and has concluded that they either are not currently relevant to the Group's consolidated financial statements or no material changes to the accounting policies or disclosures are expected as a result of these amendments.

IFRS 9, 'Financial instruments part 1; Classification and measurement' (effective for periods commencing 1 January 2013).

Management is considering the implications of the above standard, its impact on the Group and the timing of its application by the Group.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.2 Consolidation

Subsidiaries

The consolidated financial statements of the Group comprise the financial statements of the parent entity and all consolidated subsidiaries as of 31 December 2010.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operational policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.2 Consolidation (continued)

Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to the income statement where appropriate.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of the associates' post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition movements in the associate's reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

For summarized financial information on the Group's associates accounted using the equity method, see note 10.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in United States Dollars, which represents the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash hedges and qualifying net investment hedges.

All foreign exchange gains and losses are presented in the income statement under foreign exchange income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in the income statement and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

Group companies

The results and financial position of all Group entities that have a functional currency different from the Bank's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at the average exchange rates; and
- All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to Other comprehensive income'. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in the equity are recognized in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.4 Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and advances and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term.

(b) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category on initial recognition or not classified in any of the other categories.

Recognition and measurement

Regular-way purchases and sales of financial assets are recognized on trade date - the date on which the Group commits to purchase and sell the assets. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances are initially measured at fair values and subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Net trading income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of 'Other operating income' when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using other valuation techniques. These include the use of recent arm's length transactions and other valuation techniques commonly used by market participants. If the fair value of unquoted equity instruments cannot be determined reliably, such investments are stated at cost less impairment, where by impairment charges are recognized immediately in the consolidated income statement.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.4 Financial assets (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "Gains/ (loss) on disposal of available-for-sale financial assets".

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of 'Interest and similar income'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'Other operating income' when the Group's right to receive payment is established.

2.5 Financial liabilities

Financial liabilities are initially measured at fair value and subsequently are measured at amortised cost. These financial liabilities relate to Deposits from banks, Deposits from customers, Long term debt and Other liabilities and are derecognised when extinguished.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.7 Impairment of financial assets

Assets carried at amortised costs

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets are considered to be impaired and impairment losses are recognized, if and only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the assets (a "loss event") and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probably that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- observable date indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists

For loans and advances category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, then the previously recognized impairment loss is reversed. The amount of reversal is recognised in the consolidated income statement.

Assets classified as available-for-sale

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for the available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in the profit or loss - is removed from equity and recognized in the consolidated income statement.

Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life for example Goodwill are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment when ever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.9 Property and equipment

Land and buildings are shown at fair value, based on annual valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other comprehensive reserve and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the consolidated income statement. Each year the difference in depreciation based on the revalued carrying amount of the assets is charged to the consolidated income statement, and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is computed on a straight-line method to allocate their cost or revalued amounts to their residual value over their estimated useful lives of three to fifty years, as appropriate.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in 'Other operating income' in the consolidated income statement.

When the revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.10 Investment property

Property held for long term rental yield or for capital appreciation, which is not occupied by the entities in the Group, is classified as investment property. Investment property comprises land and building and are carried at fair value.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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2 Significant accounting policies (continued)

2.10 Investment property (continued)

appreciation. If that part of the property occupied by the Group can be sold separately the Group accounts for the portion separately. The portion that is owner-occupied is accounted for under IAS 16 - 'Property, plant and equipment' and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40 - 'Investment property'.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition investment properties are stated at fair value which reflects market conditions at the date of the consolidated statement of financial position. Fair value is based on valuation as assessed by independent valuers, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by professional valuers who hold a recognized and relevant professional qualification and who have recent experience in the location and category of the investment property being valued.

Gains or losses arising from the changes in the fair value of the investment properties are included in the consolidated income statement in the year in which they arise.

2.11 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations which are brand names and customer mandates:

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is shown separately in the consolidated financial statements.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying value of the goodwill relating to the entity sold.

Goodwill is allocated to the cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Brand names and customer mandates

Brand names and customer mandates acquired in a business combination are initially recognized at fair value at the acquisition date. Brand names and customer mandates have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of brand names and customer mandates over their estimated useful lives (3-10 years).

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.12 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques including discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments held as financial assets at fair value through profit or loss are measured at fair value and changes in fair value are recorded in the consolidated income statement as net trading income.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and short term financial instruments held for a period not exceeding ninety days.

2.14 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognized in shareholders' equity in the period in which they are approved by the shareholders.

Treasury shares

Where the Bank, or other member of the Group purchases the Bank's equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from the total shareholders' equity as treasury shares until they are sold or reissued. When such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in the shareholders' equity.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.16 Overseas taxation

Provision for taxation of foreign subsidiaries is determined based on the tax legislation applicable in the jurisdiction in which the foreign subsidiaries are domiciled and is determined based on reported income before income taxes. There is no corporate taxation in the Kingdom of Bahrain.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.17 Employee benefits

Compensation costs

Group employee benefits and entitlements including entitlement for annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees.

Pension plans

The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

End of service benefits

Provision for the end of service benefits for employees of the Bank and subsidiaries are made using actuarial techniques in compliance with the labour legislation of the countries in which the entities are domiciled.

2.18 Provisions

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 Interest income and expense

Interest and similar income and expense for all interest bearing financial instruments are recognised in the consolidated income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

Once a financial asset or a group of financial assets has been impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Interest and similar income includes coupons earned on fixed income investments and financial assets at fair value through profit or loss.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.20 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Asset management fees related to investment funds are recognised rateably over the period in which service is provided. The same applies to wealth management and custody services provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled. Placement fees arising from structuring transactions for clients are recognised on completion of the underlying transaction. Brokerage commission arising from providing brokerage services to clients is recognised on completion of the underlying transaction.

2.21 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

2.22 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the acting CEO who is in charge of implementing the strategic decisions of the Board.

All transaction between business segments are conducted on an arm's length basis, with intra segment revenue and cost being eliminated. Income and expenses directly associated with each segment are included in determining the business segment performance.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.23 Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacity that results in holding or placing assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not the assets of the Group.

3 Critical accounting estimates and judgments in applying accounting policies

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgments are continuously evaluated and based on historical experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale financial assets

In case of equity securities, the Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry or sector performance, changes in technology, and operational and financing cash flows. Impairment losses on equity securities classified as available-for-sale are not reversed through the income statement.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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3 Critical accounting estimates and judgments in applying accounting policies (continued)

In case of debt securities, the Group determines that available-for-sale financial assets are impaired when the fair value of the debt securities is below their carrying amount. For unquoted debt securities, the fair value is measured as the present value of the future cash flows discounted at current interest rates. The determination of the discount rates as well as the amount and timing of the future cash flows requires judgment. In making this judgment, the Group evaluates amongst other factors, the current interest rates and the probable future cash flows expected from the investee based on the financial health of the investee, industry or sector performance and changes in technology.

Estimated impairment of goodwill

The group tests annually whether the goodwill has suffered any impairment, in accordance with the accounting policy stated. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

4 Financial risk management

Risk is an integral part of the investment banking business. The Group aims at delivering superior shareholder value by achieving an appropriate trade-off between risk and returns. The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The Board of directors has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Audit Committee of the Board reviews the risk management policies, examines and advises the Board as to whether the risks, the risk management policies and practices are appropriate for the operations. The Risk Management Committee (RMC) of the Group is responsible for implementing risk management policies, procedures and limits and for ensuring that monitoring processes are in place.

The Group's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

RMC oversees the risk management function through independent Risk Management Department of the Group under policies approved by the Board of Directors, which identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The major risks associated with the Group's business are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is an important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, deposits with banks and investment activities that bring debt as well as equity securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan or underwriting commitments.

Credit risk measurement

External ratings by major rating agencies such as Standard & Poor's, Fitch, Moody's or Capital Intelligence are used by the Group for managing the credit risk exposures as a way to gain a better credit quality particularly in respect of inter bank lending, and maintain a readily available source to meet the funding requirement from such banks at the same time.

Credit and investment risks are managed and mitigated by association with reputed partners in the area of real estate, private equity and fund investments, as well as through rigorous pre-investment due diligence, diversification strategies, concentration / exposure limits across sectors, etc... In respect of inter-bank exposures, risks are minimized by association only with well-known names in banking as counterparties.

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified- in particular, to individual counterparties and Group's, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits as stipulated by the Central Bank of Bahrain on the amount of risk accepted in relation to one borrower or one group of borrowers. Exposure limits for the geographical, product and industry segments are also in place. Concentration of credit risk is shown in Note 29. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are reviewed according to the evolving business and economic environment from time to time by the Risk Management Committee and/or the Executive Committee of the Board.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is also monitored through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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4 Financial risk management (continued)

4.1 Credit risk (continued)

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for margin lending which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral taken by the group is the underlying securities. In order to minimize the credit loss the Group will seek additional collateral from the counterparty as soon as there is a reduction in the value of the collateral.

Impairment and provisioning policies

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances, if any, are provided using the available historical experience, experienced judgment and statistical techniques.

Maximum exposure to credit risk before collateral held

The below table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets on the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the bank would have to pay if the guarantee was called on or in the case of a commitment, if the loan amount was called on.

	2010	2009
Placements with banks	42,240	92,629
Loans and advances	16,169	25,245
Available-for-sale financial assets		
- Government agency bonds	14,327	14,750
- Others	-	1,630
Other assets	5,376	5,715
	78,112	139,969
Off balance sheet		
- Financial guarantees	8,045	19,455
- Loan commitments and other credit related liabilities	599	425
	86,756	159,849

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2010 and 2009, without taking account of any collateral held or other connected credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 17 % of the total maximum exposure is derived from available-for-sale financial assets (2009: 10%) and exposure on placements with banks is 49 % (2009: 57%).

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.2 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet the obligations to repay the deposits and fulfill commitments to lend.

The Group's liquidity management process, as carried out within the Group and monitored by the Assets and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by monitoring future cash flows by the Treasury and the Back office to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable funding when required;
- Maintaining a portfolio of highly marketable assets that can be easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios and concentration and profile of investments in the monthly Asset Liability Committee (ALCO) which has representatives of Senior Management, Treasury, Risk Management and Financial Control; and
- By specifying threshold minimum balances of cash and near cash assets, whereby such thresholds are linked to the levels of the Group's liabilities to the customers and banks, together with concentration/exposure limits for the various investment classes.
- By specifying policy limits for leveraging the balance sheet, maintaining cash deposits for emergency needs and maturity mismatch risk management.

Monitoring and reporting take the form of cash flow measurement and projections for the week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected maturity date of the financial assets.

Group Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as maturing forward contracts if any and guarantees.

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows. However, liquidity is managed on expected, rather than contractual basis.

	2010	2009
Up to 1 month	97,921	97,685
From 1 to 3 months	91,134	110,066
From 3 months to 1 year	23,417	26,946
From 1 year to 5 years	773	10,461
	<u>213,245</u>	<u>245,158</u>

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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4 Financial risk management (continued)

4.3 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposure to market risks into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Group Treasury and monitored closely. Regular reports are submitted to the Board of Directors and heads of each business units.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's investment banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's available-for-sale financial assets.

4.3.1 Price risk

66 The Group has established limits and sub-limits in place for financial assets at fair value through profit or loss (including funds) and available-for-sale financial assets. This includes maximum ceiling of exposures, percentages of investments to be made in capital guaranteed products, acceptable rating for the issuer of the guarantee and leveraging. The Bank also has policies relating to maximum investments per fund, sub-limits for investments in funds which are not capital guaranteed, sub-limits for the equities of specific markets, and cut-loss/cut profit requirements. Adherence to these limits is monitored effectively.

The table below indicates the significant exposure to price risk at 31 December 2010. Had the price in relation to these investments increased or decreased by 5%, with all other variables remaining constant, the impact on the results and equity of the Group would have been as follows:

Exposure in investment portfolio	Change in price	Impact on results of the Group		Impact on equity of the Group	
		2010	2009	2010	2009
Financial assets at fair value through profit or loss	± 5 %	265	275	-	-
Available-for-sale financial assets	± 5 %	-	-	3,315	3,890

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.3 Market risk (Continued)

4.3.2 Currency risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, and from income streams from non-base currency exposures. The Group recognises and manages these risks in accordance with its policies, which include the use of forward currency contracts and/or swaps, when appropriate. Further, the Group reviews its open foreign currency position on a regular basis. Refer to Note 30 for open positions as at 31 December 2010.

The table below indicates the currencies to which the Bank has significant exposures at 31 December 2010. Had the exchange rate in relation to USD increased or decreased by 5%, with all other variables remaining constant, the impact on the results and equity of the Group would have been as follows:

Exposure in Currency	Change in Currency rate	Impact on the Group's results		Impact on the Group's equity	
		2010	2009	2010	2009
GBP	± 5 %	35	280	35	37
INR	± 5 %	(383)	(217)	(235)	(225)
KZT	± 5 %	(1,081)	(617)	(1,077)	(674)
TRY	± 5 %	(414)	(240)	(880)	(910)

4.3.3 Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of interest rates on cash flows. Senior management sets limits and monitors the level of mismatch of interest rate re-pricing that may be undertaken by the Group.

Interest rate risk and maturity mismatch risks are managed by maintaining a reasonable balance between maturities of assets and liabilities, within the general constraints of the regional financial markets. Interest rate risk management of the Group is shown in Note 28.

The table below indicates the impact on the changes in LIBOR interest rates on the maturity buckets by 50 bps, 100 bps and 200 bps, with all other variables remaining constant:

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.3 Interest rate risk (continued)

				2010
Annualised	Less than 3 months	3 months to 1 year	Over 1 year	Total
at 50 bps increase	(240)	(51)	62	(229)
at 100 bps increase	(481)	(102)	125	(458)
at 200 bps increase	(962)	(204)	249	(917)
				2009
Annualised	Less than 3 months	3 months to 1 year	Over 1 year	Total
at 50 bps increase	130	78	30	238
at 100 bps increase	259	156	59	474
at 200 bps increase	518	312	119	949

4.4 Capital management

The Group's objectives when managing capital, which is broader concept than the 'equity' on the face of the balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group is subject to the application of the Basel II capital adequacy framework effective January 2008. Capital adequacy and the use of regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Bahrain, for supervisory purposes. The information is required to be filed with the Central Bank of Bahrain on a quarterly basis.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.4 Capital management (continued)

The Central Bank of Bahrain requires each bank or banking Group to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the minimum of 12%.

The Group's regulatory capital is divided into two tiers:

- Tier 1 capital: Share capital (net of any book values of the treasury shares), non-controlling interests in equity arising on consolidation from interest in permanent shareholders' equity, retained earnings and disclosed reserves created by appropriations of retained earnings. The book value of goodwill, if any, and current cumulative losses are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: Asset revaluation reserve, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available-for-sale and investment property

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December 2010.

	2010	2009
Regulatory Capital	33,319	67,709
Risk-weighted assets:		
Credit risk weighted exposures	163,181	275,933
Operational risk weighted exposures	46,496	62,174
Market risk weighted exposures	49,586	59,262
Total risk-weighted assets	259,263	397,369
Basel ratio %	12.85	17.04

At year end, the individual entities within the Group and the Group complied with all the externally imposed capital requirements to which they are subject.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

4 Financial risk management (continued)

4.5 Fair value of financial assets and liabilities

The carrying amounts of the financial assets and liabilities are reasonable approximation of their fair values as at 31 December 2010.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or un-observable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumption. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This level includes net asset value of funds provided by investment managers and the fair value calculated based on input parameters used from Bloomberg and Reuters.
- Level 3 – Inputs for assets or liabilities that are not based on observable market data. This level includes equity investments or debt investments with significant un-observable components. The Group does not have any financial assets that are measured based on unobservable market data.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuation where possible. Equity instruments stated at cost are not considered for the below disclosures.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Treasury bills	302	-	-	302
- Equity investments- Listed	3,787	-	-	3,787
- Funds	1,189	-	-	1,189
Available-for-sale financial assets carried at fair value				
- Government agency bonds	12,620	1,707	-	14,327
- Private equity investments	-	6,897	-	6,897
- Investment in funds	236	467	-	703
- Others	58	-	-	58
Total	18,192	9,071	-	27,263

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5 Financial assets at fair value through profit or loss

	2010	2009
Treasury bills	302	194
Equity investments-listed	-	318
Funds	4,976	4,923
	<u>5,278</u>	<u>5,435</u>

6 Loans and advances

	2010	2009
Term loans	30,481	38,217
Less: Provisions for impairment	(14,312)	(12,972)
	<u>16,169</u>	<u>25,245</u>

Loans and advances are summarised as follows

	2010	2009
Neither past due nor impaired	12,345	20,852
Past due but not impaired	1,286	-
Impaired	16,850	17,365
Gross	30,481	38,217
Less allowance for impairment (Note 7)	(14,312)	(12,972)
	<u>16,169</u>	<u>25,245</u>

Impaired loans include margin loans outstanding for less than one year amounting to US\$ 3.7 million (2009: US\$ 5.6 million). The Group holds shares as collateral having a fair value of US\$ 3.1 million. Impaired loans also include loans outstanding for more than one year against which the Group holds cash collateral having a fair value of US\$ 6.3 million. (2009: US\$ 4.3 million)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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7 Provisions

Impairment of available-for-sale financial assets, loans and advances and other assets are as follows:

	Available- for-sale financial assets	Loans and advances	Other assets	Total
At 1 January 2009	33,406	13,017	2,924	49,347
Charge for the year	6,646	337	903	7,886
Provisions utilized during the year	(696)	(387)	(903)	(1,986)
Other movements	20	5	(5)	20
At 31 December 2009	39,376	12,972	2,919	55,267
Charge for the year	3,882	1,517	-	5,399
Provisions utilized during the year	(739)	(2)	-	(741)
Other movements	(4)	(175)	-	(179)
At 31 December 2010	42,515	14,312	2,919	59,746

During the year 2010, fair value loss relating to available-for-sale financial assets amounting to US\$ 0.2 million (2009: US\$ 1.1 million) was charged directly to income statement. Also a provision of US\$ 0.2 million relating to the closure of the New York office was also directly charged to the income statement.

Other provision

During 2005 the Bank acted as an agent in an investment transaction amounting to US\$ 18.7 million related to the acquisition of a parcel of land in Mecca, Saudi Arabia. Due to delays in regularizing the title to the parcel of land by the promoter this investment transaction was not completed within the expected time frame to enable exit from this investment. The investors requested the Bank to intervene and in December 2009 the Bank, through its nominee in Saudi Arabia, instituted legal proceedings against the promoter whereby the promoter declared in the Court that he is willing to pay back the funds received from the nominee acting on behalf of the Bank and requested time to be in a position to do so.

Although the Bank, as agent, was not legally responsible for any losses that may have been incurred by the investors on such transaction, on 24 February 2010 the Bank's Board of Directors directed the management of the Bank to undertake to repay the capital invested by the investors by 15 March 2011.

The Bank accordingly has provided for the full potential loss of US\$ 18.7 million the bank may incur with respect to its undertaking to repay the investors' amount.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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8 Related-party transactions

The Group carries out transactions in the normal course of business with related parties, defined as shareholders and directors of the Bank and its subsidiaries, and businesses in which shareholders and directors, individually or combined, have control or significant influence. Related parties also include key management personnel.

Significant balances and transaction are provided below:

	2010	2009
<u>Acacia Real Estate Limited (Associate company)</u>		
- Fee and commission income	-	1,000
- Interest expense	3,925	3,401
- Deposits/current account in favour of Acacia Real Estate Limited BSC (c)	59,020	80,483
<u>Dubai First PJSC (company under common control)</u>		
- Interest income on Placements with Dubai First PJSC	-	1,423
<u>Customer deposits</u>		
- Deposits received from directors and their related parties	24,277	23,205
- Interest expense on deposits received from directors and their related parties	184	149
<u>Loans and advances</u>		
- Loans and advances extended to directors and their related parties	-	626
- Interest income on loans and advances extended to directors and their related parties	3	27
	2010	2009
<u>Key management compensation</u>		
Salaries and other short-term employee benefits	953	930
End of service benefits	27	18
	980	948
Reimbursement of expenses to Directors	48	105

Refer also to Note 34.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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9 Available-for-sale financial assets

	2010	2009
Government agency bonds	14,327	14,750
Property interests held for sale – equity stated at cost	75,759	81,895
Private equity investments	15,467	15,155
Investments in funds	3,209	3,717
Other	58	1,630
	108,820	117,147
Less allowance for impairment (Note 7)	(42,515)	(39,376)
	66,305	77,771

The movements in available-for-sale financial assets are summarized as follows:

	2010	2009
At 1 January	77,771	92,350
Exchange differences on monetary assets	4	(375)
Additions	13,080	7,835
Disposals (sale and redemption)	(22,107)	(17,450)
Fair value reserve loss transferred from equity to the income statement	(292)	1,072
Changes in fair value	991	289
Provision for impairment of available-for-sale financial assets	(3,882)	(6,646)
Provision for impairment of available-for-sale financial assets utilised during the year	740	696
At 31 December	66,305	77,771

Further information of the impairment of Available-for-sale financial assets are provided in Note 7 above.

10 Investment in associates

Investment in associates includes investment in Acacia Real Estate Limited BVI (“ACACIA BVI”) and Acacia Investments B.S.C (c) (“ACACIA BSC”).

ACACIA BVI is incorporated under the laws of the Territory of the British Virgin Islands to provide a diverse range of conventional and Shariah-compliant investments. At 31 December 2009, the investment represented approximately 11.70% of the paid up share capital of ACACIA BVI, amounting to US\$ 130.5 million.

ACACIA BSC is incorporated in the Kingdom of Bahrain to provide a diverse range of conventional and Shariah-compliant investments. At 31 December 2009, the investment represented approximately 24.5% of the paid up capital of ACACIA BSC, amounting to US\$ 20.4 million.

Effective 01 October 2010, ACACIA BVI was merged with ACACAI BSC and the Group at 31 December 2010 holds 13.43 % in the new entity.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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10 Investments in associates (continued)

	2010	2009
At 1 January	20,205	16,024
Share of loss	(1,001)	(939)
Share of other comprehensive income/(loss)	130	(180)
Additional investment in associate	-	5,300
	<u>19,334</u>	<u>20,205</u>

Summarized financial information of the Group's associates accounted for using the equity method is as follows:

Year	Assets	Liabilities	Revenues	Loss
2010	144,951	1,029	6,125	(2,411)
2009	149,590	239	(4,514)	(6,557)

11 Investment property

Included in the investment property, is the rented out portion of TAIB Tower.

	2010	2009
At 1 January	26,277	29,026
Changes in fair value	(2,603)	(3,059)
Other movements	391	310
At 31 December	<u>24,065</u>	<u>26,277</u>

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The Bank's investment properties were revalued in December 2010 (2009: December 2009) by independent professionally qualified valuers on an open market basis.

Investment properties generated in 2010 a rental income of US\$ 3.0 million (2009: US\$ 2.4 million) and direct operating expenses recognized in the consolidated income statement were US\$ 1.8 million (2009: US\$ 1.1 million).

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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12 Property and equipment

	2010	2009
Cost	18,124	19,190
Revaluation	4,232	9,098
Accumulated depreciation	(7,588)	(6,928)
Net book amount	14,768	21,360

Included in accumulated depreciation is an amount of US\$ 1.4 million (2009: US\$1.4 million) representing depreciation charged during the year. The Bank's properties were revalued in December 2010 (2009: December 2009) by an independent valuer.

13 Other assets

	2010	2009
Interest receivable	3,480	3,165
Prepaid expenses and security deposits	1,691	1,612
Derivative financial instruments	50	13
Settlement with broker	818	1,102
Other accounts receivable	2,256	2,742
Less: Provision for impairment (Note 7)	(2,919)	(2,919)
	5,376	5,715

14 Deposits from customers

	2010	2009
Deposits	89,651	126,538
Current accounts	64,787	67,369
	154,438	193,907

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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15 Other liabilities

	2010	2009
Interest payable	836	1,529
Other provisions (Note 7)	18,754	-
Accrued expenses	3,227	3,186
Deferred revenue	381	2,249
Client funds	-	3,997
Other accounts payable	5,964	6,352
	<u>29,162</u>	<u>17,313</u>

In the ordinary course of business, the Group enters into derivative contracts either to meet customer requirements or to manage its foreign currency and interest exposures. The fair value of these derivative instruments are included in 'other assets' and 'other liabilities' when positive or negative, respectively.

	2010		2009	
	Fair value	Contract/ notional amount	Fair Value	Contract/ notional amount
Currency forwards	50	11,857	13	28,899
	<u>50</u>	<u>11,857</u>	<u>13</u>	<u>28,899</u>

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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16 Share capital

	2010	2009
<u>Authorized</u>		
1,000 million (2009: 1,000 million) ordinary shares of US\$1 each	1,000,000	1,000,000
<u>Issued and fully paid</u>		
112.362 million (2009: 112.362 million) ordinary shares of US\$1 each	112,362	112,362

In the course of its investment activities, the Bank sometimes buys and sells its own shares. These shares are treated as treasury shares and deducted from shareholders' equity. Gains and losses on purchase and sale of own shares are transferred to the share premium within equity. The total number of treasury shares at 31 December 2010 was 5.5 million shares (31 December 2009: 4.5 million shares).

17 Reserves

Capital reserve

The capital reserve represents bonus shares issued by TAIB Yatirim Bank A.S. and is not available for distribution.

Statutory reserve

In accordance with the provisions of local legislation of the countries in which the Bank and its subsidiaries are domiciled, a proportion of the net profit for the year is transferred to a non-distributable statutory reserve.

Revaluation reserve

Revaluation reserve represents surplus arising on the revaluation of the Bank's building, TAIB Tower. The valuation is based on an independent valuation carried out by an external valuer and the surplus arising out of revaluation is transferred to a separate component of equity as revaluation reserve. This reserve is not available for distribution.

General reserve

General reserve represents appropriations from the Bank's net profit as approved by the Board of Directors and can only be distributed with the shareholders' approval.

Fair value reserve

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized in the fair value reserve in equity, until the investment is sold, derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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17 Reserves (continued)

Retained earnings

Retained earnings represent distributable profits after transfer of amounts to statutory and general reserves.

Movement in retained earnings also includes transfer from revaluation reserve of the difference between the depreciation based on the revalued carrying amount of the building and the depreciation based on the asset's original cost (refer to note 12).

18 Interest and similar income

	2010	2009
Interest income on placements with banks	978	2,086
Interest and similar income from investments	1,201	1,824
Other interest income	1,668	1,723
	<u>3,847</u>	<u>5,633</u>

19 Interest expense

	2010	2009
Interest expense on customer deposits	5,382	5,535
Interest expense on deposits received from banks and others	1,656	884
	<u>7,038</u>	<u>6,419</u>

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20 Fee and commission income

	2010	2009
Investment banking and structuring fees	3,321	3,281
Placement fees	361	2
Brokerage commission	1,486	2,749
	<u>5,168</u>	<u>6,032</u>

21 Net trading income/(loss)

	2010	2009
Gain on investments in funds and equities	<u>788</u>	<u>734</u>

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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22 Staff costs

	2010	2009
Salaries and short term employee benefits	10,037	12,768
End of service benefits	142	195
	<u>10,179</u>	<u>12,963</u>
Employee retirement and end of service benefits		
	2010	2009
At 1 January	794	1,206
Charge for the year	142	195
Payments during the year	<u>(283)</u>	<u>(607)</u>
At 31 December	<u>653</u>	<u>794</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2010 and 2009, using the projected unit credit method, in respect of employees' end of service benefits payable in accordance with the Group's terms of employment. Under this method, an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment costs of 5%. The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 5% (2009: 5%).

The costs associated with contributions made by the Group in relation to defined contribution pension schemes amounted to US\$ 0.2 million (2009: US\$ 0.2 million). In relation to these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

23 Other operating costs

	2010	2009
Premises and equipment costs	2,409	2,829
Depreciation and amortization	1,873	1,852
Consultancy fees	1,417	859
Licenses and taxes	999	883
Advertising	359	564
Bank charges	409	348
Travel expenses	120	283
Other costs	<u>4,564</u>	<u>4,048</u>
	<u>12,150</u>	<u>11,666</u>

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
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24 Earnings per share

Basic

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year, excluding the average number of issued and fully paid up ordinary shares purchased by the Bank and held as treasury shares.

Diluted

The share options issued by the Bank do not have dilutive impact on the ordinary shares. A calculation was done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above was compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	2009
Net loss attributable to shareholders (US\$'000)	(38,613)	(26,076)
Weighted average number of issued and outstanding fully paid up ordinary shares (in 000's)	107,339	107,832
Earnings per share expressed in United States Dollars: – Basic and Diluted	\$(0.360)	\$(0.242)

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The Directors do not propose to recommend to the Annual General Meeting to pay a dividend for the year ended 31 December 2010 (2009: Nil).

25 Cash and cash equivalents

	2010	2009
Cash and balances with central banks	72,560	68,225
Placements with banks	42,240	92,629
	114,800	160,854

26 Funds under management

	2010	2009
Discretionary accounts	14,662	12,673
Non-discretionary accounts	564,634	584,735
	579,296	597,408

The non-discretionary accounts comprise customers' investments in real estate and private equity investments, which are undertaken through the Bank and investments in Indian equity securities, which are undertaken through TAIB Securities Mauritius Limited.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

27 Commitments and contingent liabilities

Commitments

	2010	2009
Guarantees	8,045	19,455
Undrawn loan commitments	599	425
	<u>8,644</u>	<u>19,880</u>

At 31 December 2010 and 31 December 2009, all of the Group's letters of credit, guarantee and commitments are due to expire within one year.

The Group has a commitment to increase the regulatory capital of its subsidiary in Kazakhstan from US\$ 32 million to US\$ 67 million, before 1 July 2011.

Contingent liabilities

A claim was filed against TAIB Bank by A. Sharbatly and others ("plaintiffs") in the Court of First Instance ordering the Bank, three former employees and a company in the UK (Third Defendant) to pay them US\$ 18.7 million plus interest and cost in respect of an investment loss. The Court issued its judgment on 29 April 2010 absolving the Bank and three former employees from liability, and granting judgment against the Third Defendant. However, the Plaintiff and others have since appealed against this decision in the higher Court of Appeal and the hearing has been adjourned till 7 March 2011.

Although the ultimate outcome of the proceedings cannot be predicted with certainty, it is the opinion of the Bank's Directors, based on legal advice that the decision on appeal will be favourable to the Bank. Accordingly, no provision has been set up in relation to this case in these consolidated financial statements.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

28 Interest rate risk management

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

	2010					
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Non interest bearing	Total
Cash and balances with central banks	-	-	-	-	72,560	72,560
Placements with banks	33,989	-	8,251	-	-	42,240
Financial assets at fair value through profit or loss	-	-	-	302	4,976	5,278
Loans and advances	9,626	1,973	1,709	2,861	-	16,169
Available-for-sale financial assets	217	1,355	2,744	10,011	51,978	66,305
Investment in associate	-	-	-	-	19,334	19,334
Investment property	-	-	-	-	24,065	24,065
Property and equipment	-	-	-	-	14,768	14,768
Intangible assets	-	-	-	-	989	989
Goodwill	-	-	-	-	3,607	3,607
Other assets	-	-	-	-	5,376	5,376
Total assets	43,832	3,328	12,704	13,174	197,653	270,691
Deposits from banks	20,000	-	-	-	778	20,778
Deposits from customers	6,132	69,119	15,532	715	62,940	154,438
Other liabilities	-	-	-	-	29,162	29,162
Long term debt	-	-	7,407	-	-	7,407
Non-controlling interests - Funds	-	-	-	-	434	434
Total liabilities	26,132	69,119	22,939	715	93,314	212,219
Shareholders' equity	-	-	-	-	57,857	57,857
Non-controlling interests in equity	-	-	-	-	615	615
Total liabilities, shareholders' equity and non-controlling interests in equity	26,132	69,119	22,939	715	151,786	270,691
On balance sheet interest rate sensitivity gap	17,700	(65,791)	(10,235)	12,459		
On balance sheet cumulative interest rate sensitivity gap	17,700	(48,091)	(58,326)	(45,867)		

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

28 Interest rate risk management (continued)

						2009
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Non interest bearing	Total
Cash and balances with central banks	42,169	-	-	-	26,056	68,225
Placements with banks	88,991	-	2,144	-	1,494	92,629
Financial assets at fair value through profit or loss	-	-	194	-	5,241	5,435
Loans and advances	7,926	686	2,208	6,304	8,121	25,245
Available-for-sale financial assets	11,509	10,000	32,608	8,712	14,942	77,771
Investment in associate	-	-	-	-	20,205	20,205
Investment property	-	-	-	-	26,277	26,277
Property and equipment	-	-	-	-	21,360	21,360
Intangible assets	-	-	-	-	1,514	1,514
Goodwill	-	-	-	-	3,730	3,730
Other assets	-	-	-	-	5,715	5,715
Total assets	150,595	10,686	37,154	15,016	134,655	348,106
Deposits from banks	24,000	-	-	-	525	24,525
Deposits from customers	14,533	96,837	21,575	1,565	59,397	193,907
Other liabilities	-	-	-	-	17,313	17,313
Long term debt	-	-	7,516	-	7,516	
Non-controlling interests - Funds	-	-	-	-	791	791
Total liabilities	38,533	96,837	21,575	9,081	78,026	244,052
Shareholders' equity	-	-	-	-	103,016	103,016
Non-controlling interests in equity	-	-	-	-	1,038	1,038
Total liabilities, shareholders' equity and non-controlling interests in equity	38,533	96,837	21,575	9,081	182,080	348,106
On balance sheet interest rate sensitivity gap	112,062	(86,151)	15,579	5,935		
On balance sheet cumulative interest rate sensitivity gap	112,062	25,911	41,490	47,425		

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TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

28 Interest rate risk management (continued)

The tables in respect of balance sheet interest rate risk include floating rate instruments as follows:

	2010		2009	
	Up to 1 Month	Total	Up to 1 Month	Total
Available-for-sale financial assets	217	217	2,565	2,565
Loans and advances	9,626	9,626	7,926	7,926
	9,843	9,843	10,491	10,491

The effective interest rate by major currencies for each category of the monetary financial instruments as at 31 December is shown below:

	2010					2009				
	USD %	GBP %	EUR %	BHD %	TRY %	USD %	GBP %	EUR %	BHD %	TRY %
Assets										
Placement with banks	0.46	-	-	-	-	0.43	-	-	-	-
Loans and advances	6.00	-	-	-	5.00	4.03	-	-	-	-
Available-for-sale financial assets										
- CMOs	1.68	-	-	-	-	1.31	-	-	-	-
- Treasury bills	-	-	-	-	-	-	-	-	-	6.97
- Real estate	6.00	-	-	-	-	6.00	-	-	-	-
Liabilities										
Deposits from banks	0.60	-	-	-	-	0.79	-	-	-	-
Deposits from customers	4.18	3.00	-	2.50	3.89	4.46	1.25	1.03	4.6	-
Long term debt	2.80	-	-	-	-	2.78	-	-	-	-

29 Concentrations of credit risk

Concentration of credit 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. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to both positive and negative developments affecting a particular industry or geographical location.

The Group had no significant concentrations of credit risk as at 31 December 2010 or at 31 December 2009.

Geographical and industrial distributions of assets, liabilities and off balance sheet items are shown in Note 31.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

30 Significant net open foreign currency positions

The Group takes on exposure to the effects of the fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily by the Treasury and Risk Departments.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010.

	USD	GBP	SAR	INR	TRY	KZT	Others	Total
Cash and balances with central banks	12,209	1,036	3,146	39,017	72	10,530	6,550	72,560
Placements with banks	33,047	-	-	2,791	756	-	5,646	42,240
Financial assets at fair value through profit or loss	4,898	-	32	22	302	-	24	5,278
Loans and advances	5,366	-	2,191	-	-	5,136	3,476	16,169
Available-for-sale financial assets	73,814	-	-	294	3,233	8,298	-	85,639
Investment property	23,223	-	-	842	-	-	-	24,065
Other assets	14,712	847	39	394	4,965	2,678	1,105	24,740
Total assets	167,269	1,883	5,408	43,360	9,328	26,642	16,801	270,691
Deposits from banks	20,778	-	-	-	-	-	-	20,778
Deposits from customers	97,155	1,082	11,723	34,660	2	4,417	5,399	154,438
Other liabilities	25,370	85	441	1,043	1,038	613	572	29,162
Long term debt	7,407	-	-	-	-	-	-	7,407
Non-controlling interests – Funds	434	-	-	-	-	-	-	434
Total liabilities	151,144	1,167	12,164	35,703	1,040	5,030	5,971	212,219
Net on balance sheet financial position	16,125	716	(6,756)	7,657	8,288	21,612	10,830	58,472
Credit commitments	1,011	-	-	-	80	2,103	5,450	8,644
At 31 December 2009								
Total financial assets	207,180	7,768	12,314	26,955	5,234	18,725	23,121	301,297
Total financial liabilities	179,759	2,162	11,998	22,610	427	6,375	20,721	244,052
Net on balance sheet financial position	27,421	5,606	316	4,345	4,807	12,350	2,400	57,245
Credit commitments	5,844	260	-	9	22	129	13,616	19,880

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31 Segmental reporting and concentration of assets, liabilities and off balance sheet items

(a) Business segments

The Group is organised into three main business segments:

Asset management: Incorporating full financial advisory services, funds and portfolio management and proprietary trading activities.

Private banking: Incorporating real estate acquisition, divestments, joint venture and specialized private equity deals and trust services.

Brokerage: Offering full brokerage services within the Group's selected markets.

	2010			
	Asset Management	Private Banking	Brokerage	Total
<u>Segmental income</u>				
Operating income	1,141	3,843	2,744	7,728
<u>Segmental result</u>				
Loss before taxation	(549)	(37,547)	(965)	(39,061)
Overseas taxation				21
Income after taxation				(39,040)
Non-controlling interests in equity				427
Loss for the year attributable to equity holders of the Bank				(38,613)
<u>Other information</u>				
Segmental assets	84,511	167,781	18,399	270,691
Segmental liabilities	112,908	92,665	6,646	212,219
Capital expenditure	-	94	-	94
Depreciation	-	1,626	247	1,873
Provisions for impairment	-	3,425	1,226	4,651

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TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)

(a) Business segments (continued)

	2009			
	Asset Management	Private Banking	Brokerage	Total
<u>Segmental income</u>				
Operating income	665	4,193	3,871	8,729
<u>Segmental result</u>				
(Loss)/profit before taxation	(154)	(25,772)	52	(25,874)
Overseas taxation				(149)
Income after taxation				(26,023)
Non-controlling interests in equity				(53)
Loss for the year attributable to equity holders of the Bank				(26,076)
<u>Other information</u>				
Segmental assets	142,005	195,384	10,717	348,106
Segmental liabilities	166,107	76,485	1,460	244,052
Capital expenditure	-	1,265	68	1,333
Depreciation	-	1,482	370	1,852
Provisions for impairment	407	9,031	(480)	8,958

Assets, liabilities and off balance sheet items for the Group are distributed over the following industry sectors:

	2010			2009		
	Assets	Liabilities	Off Balance sheet Items	Assets	Liabilities	Off balance sheet items
Trading and manufacturing	87,894	112,610	5,530	118,878	97,848	6,004
Banks and financial institutions	182,797	99,609	3,114	229,228	146,204	13,876
	270,691	212,219	8,644	348,106	244,052	19,880

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)

(b) Geographical segments

The Group is organized on geographical basis and operates in four main geographical areas. The Group's exposure to credit risk is spread across these areas based on the country of domicile of its counterparties.

North America	-United States of America
Europe	-United Kingdom, France and Turkey
Middle East	-Bahrain, UAE, Saudi Arabia, Oman, Kuwait and Qatar
Rest of Asia	-India, Kazakhstan, Macau SAR, People's Republic of China and Far East

					2010
	North America	Europe	Middle East	Rest of Asia	Total
<u>Segmental income/(loss)</u>					
Operating income/(loss)	3,783	3,816	(4,336)	4,465	7,728
<u>Segmental result</u>					
(Loss)/profit before tax	(3,569)	(1,628)	(34,740)	876	(39,061)
Overseas taxation					21
Loss after tax					(39,040)
Non-controlling interests in equity					427
Loss for the year attributable to equity holders of the Bank					(38,613)
<u>Other information</u>					
Segmental assets	30,450	34,003	113,481	92,757	270,691
Segmental liabilities	29,223	53,545	112,299	17,152	212,219
Off balance sheet items	-	80	5,450	3,114	8,644
Capital expenditure	-	30	38	26	94
Depreciation and Amortisation	41	462	1,178	192	1,873
Provisions for impairment	337	1,028	1,226	2,060	4,651

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)

(b) Geographical segments (continued)

					2009
	North America	Europe	Middle East	Rest of Asia	Total
<u>Segmental income</u>					
Operating income	1,096	1,635	1,313	4,685	8,729
<u>Segmental result</u>					
Loss before tax	(1,531)	(4,938)	(12,859)	(6,546)	(25,874)
Overseas taxation					(149)
Loss after tax					(26,023)
Non-controlling interests in equity					(53)
Loss for the year attributable to equity holders of the Bank					(26,076)
<u>Other information</u>					
Segmental assets	37,099	93,038	133,015	84,954	348,106
Segmental liabilities	12,608	75,736	137,499	18,209	244,052
Off balance sheet items	-	282	13,615	5,983	19,880
Capital expenditure	-	167	790	376	1,333
Depreciation and Amortisation	42	437	1,227	146	1,852
Provisions for impairment	177	6,610	(482)	2,653	8,958

Transactions across the geographical segments are on normal commercial terms and conditions. There are no material items of income or expense between the geographical segments

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

32 Consolidated subsidiaries

The Bank's subsidiaries at 31 December 2010 are set out below:

Subsidiary	Country of Incorporation	Ownership/control		Principal activity
		2010	2009	
TAIB Yatirim Bank A.S.	Turkey	100%	100%	Investment banking
TAIB Yatirim A.S.*	Turkey	100%	100%	Securities brokerage services
PDF Kurusmal Finasman Danismanlik Hizmetleri A.S.*	Turkey	100%	100%	Corporate finance
TAIB Kazak Bank	Kazakhstan	100%	100%	Commercial banking
TAIB Securities W.L.L.	Kingdom of Bahrain	100%	100%	Securities brokerage services
TAIB Securities LLC **	United Arab Emirates	80%	80%	Securities brokerage services
TAIB Capital Corporation Limited	India	74%	74%	Merchant banking
TAIB Securities (India) Limited***	India	74%	74%	Securities brokerage services
TAIB Asset Management Company E.C.	Kingdom of Bahrain	100%	100%	Investment advisory services
TAIB Securities Mauritius Limited	Mauritius	100%	100%	Holding investments
TAIB Investments N.V.	Netherlands Antilles	100%	100%	Real estate investments
TAM Holdings Inc.****	USA	100%	100%	Real estate investments
Delray Property Investments Inc.****	USA	100%	100%	Real estate investments
SOSQ Property Investments Inc. ****	USA	100%	100%	Real estate investments
TAM Management Services Inc.****	USA	100%	100%	Real estate investments
TAIB Securities Inc.****	USA	100%	100%	Securities advisory services
TAIB Securities Limited	United Kingdom	100%	100%	Securities advisory services
TAIB (Suisse) S.A.	Switzerland	100%	100%	Financial services
TAIB Asia Limited	Hong Kong	100%	100%	Financial services
TAIB Invest Inc. *****	Cayman Islands	100%	100%	Holding investments
TAIB Investment Company Ltd	Mauritius	100%	100%	Holding investments
TAIB Funds Company	Kingdom of Bahrain	100%	79%	Asset management
TAIB Bank Qatar LLC*****	Qatar	100%	100%	Investment banking
TB Directors Limited	British Virgin Islands	100%	100%	Advisory services

* TAIB Yatirim A.S. and PDF Kurusmal Finasman are a 100% subsidiary of TAIB Yatirim Bank A.S

** TAIB Securities LLC. is a 80% subsidiary of TAIB Securities W.L.L.

*** TAIB Securities (India) Limited is a 100% subsidiary of TAIB Capital Corporation Limited.

**** TAM Holdings Inc. is a 100% subsidiary of TAIB Investments NV. TAM Management, Delray, SOSQ and TAIB Securities Inc. are 100% subsidiaries of TAM Holdings Inc.

***** TAIB Invest Inc. is currently in the process of Liquidation

***** TAIB Bank Qatar LLC was liquidated during the year.

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Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

33 Non-controlling interests - Funds

	2010	2009
At 1 January	791	3,372
Profit for the year	54	77
Movement in non-controlling interests in equity	(411)	(2,658)
	<u>434</u>	<u>791</u>

34 Significant post balance sheet events

On 10 February 2011, a related party deposit of US\$ 10.5 million which had been withdrawn during 2010 was re-deposited with the Bank. The Bank expects to receive further related party deposits amounting to approximately US\$ 50 million by the end of the first quarter of 2011 and a further related party deposit of approximately US\$ 20 million by the year ending 31 December 2011.

On 15 February 2011, the Bank sold its interests in an available-for-sale financial asset to a related party stated in these consolidated balance sheet at US\$ 35.4 million at 31 December 2010 for US\$ 36.7 million recognizing a profit of US\$ 1.3 million.

92 At the Board meeting held on 20 January 2011, it was resolved to take such steps as may be necessary in order to prepare plans for increasing the paid up share capital of the Bank by raising additional capital through a rights issue subject to obtaining the necessary regulatory approvals.

35 Comparatives

Except when standard or interpretation permits or requires otherwise, all the amounts are reported and disclosed with comparative information.

Information on the directorships held by the directors on other boards

Name	Interests in other businesses
Mr. Abdulrazaq Mohammed Abdulla Ali Aljassim CHAIRMAN [Non-Executive Director] [Non-Independent]	Non-Executive Director Oman National Investment Corporation Holding (ONIC) SAOG [Muscat, Oman] - Al Ahlia Insurance - [Muscat, Oman] Dubai Group Sigorta [Turkey] Dubai First [Dubai, UAE] Deira Investment [Dubai, UAE] Al Fajer Retakaful Insurance Company [Kuwait]
Sh. Abdulaziz Rashed A AlRashed VICE CHAIRMAN [Non-Executive Director] [Non-Independent]	Chairman Rashed A. Alrashed & Sons Group Board member Bank Saudi Fransi Board member and owner: Alshifa Medical Syringe Co. Alfalak Electronic Equipment & Supplies Co. AlKhaleej Computers & Electronics
Mr Fadhel Abdulbaqi Abu Alhasan AlQaed Al Ali Member [Non-Executive Director] [Non-Independent]	Director Dubai Holding Company - Executive Committee - (UAE) Jumeirah Group LLC - (UAE) Borse Dubai - (UAE) Bank Islam (Malaysia) Du/Emirates Integrated Telecommunications Company PJSC (UAE) Dubai Financial Services Authority (UAE) Chairman Dubai Bank - (UAE) Vice Chairman Dubai First (UAE)
Mr Masood Mohd Mohd Sharif Mahmood Member [Non-Executive Director] [Non-Independent]	Director Acacia Real Estate Limited (BVI) Acacia Investments BSC (c)
Mr. Ibrahim Abdulmohsen Al Sultan Member [Non-Executive Director] [Non-Independent]	Chairman Consolidated Co., Riyadh, Saudi Arabia Retd. Dty. Minister, Ministry of Communication, Saudi Arabia

Mr. Khalid Nasser Humaid AlShamsi
Member
[Non-Executive Director]
[Non-Independent]

Chairman
KOP Capital Pte Ltd
Acacia Real Estate Limited (BVI)
Acacia Investments BSC (c)

Mr Mohamed Ali Saleh Abbas
Member
[Executive Director]
[Non-Independent]

Chairman
TAIB Kazakh Bank SJC
TAIB Securities LLC
Member
JAIC-TAIB Capital Management Pte Ltd
TAIB-JAIC Asian Balanced Private Equity Fund
Acacia Real Estate Limited (BVI)
Acacia Investments BSC (c)
PDF Kurumsal Finansman Danismanlik Hizmetleri A.S.
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CORPORATE DIRECTORY

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