Al Baraka Banking Group B.S.C.

Additional Public Disclosures
31 December 2011

(Unaudited)

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1 INTRODUCTION

Al Baraka Banking Group B.S.C. ('the Bank') is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ('the Group') comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The following are the principal subsidiaries of the Bank, which are consolidated for all financial information presented unless otherwise stated:

Bank	*Ownership for 2011*	*Ownership for 2010*	*Year of incorporation*	*Country of incorporation*
Held directly by the Bank				
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain
Al Baraka Bank Tunis (ABT)	**78.40%**	78.40%	1983	Tunisia
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt
Al Baraka Bank Lebanon (ABBL)	**98.50%**	98.50%	1991	Lebanon
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1979	Jordan
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey
Al Baraka Bank Limited (ABL)	**61.98%**	56.29%	1989	South Africa
Al Baraka Bank Sudan (ABS)	**82.08%**	82.08%	1984	Sudan
Al Baraka Bank Syria (ABBS)	**23.00%**	23.00%	2009	Syria

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

Company/ Bank *Held indirectly by the Bank*	*Subsidiary held through*	*Effective Ownership for 2011*	*Effective Ownership for 2010*	*Year of incorporation*	*Country of incorporation*
Al Baraka Bank (Pakistan) Limited	AIB	**58.90%**	58.90%	2010	Pakistan
Al- Rizq Trading Company	JIB	**59.40%**	59.40%	1994	Jordan
Al-Omariya School Company	JIB	**62.31%**	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	**66.01%**	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	**66.01%**	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	**66.01%**	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	**61.98%**	56.29%	1991	South Africa

This documents contains disclosures required under the guidelines of the annual public disclosures required by Islamic banks. The period covered is from 1 January 2011 to 31 December 2011.

2 FINANCIAL HIGHLIGHTS

The following summarises the basic quantitative indicators of financial performance of the Group:

EARNINGS (US$ Millions)	*2011*	*2010*	*2009*	*2008*	*2007*
Total Operating Income	**741**	659	634	586	444
Net Operating Income	**344**	316	325	314	215
Net Income	**212**	193	167	201	201
Net Income Attributable to Equity Holders of the Parent	**118**	106	92	114	144
Basic and diluted earnings per share - US cents	**13.72**	12.22	10.55	13.08	16.58
FINANCIAL POSITION (US$ Millions)					
Total Assets	**17,154**	15,878	13,166	10,920	10,104
Total Financing and Investments	**11,818**	11,391	9,431	8,088	7,389
Total Deposits	**14,680**	13,571	10,999	8,872	8,084
Total Owners' Equity	**1,799**	1,817	1,737	1,550	1,570
Equity Attributable to Parent's Shareholders	**1,203**	1,224	1,214	1,131	1,144
CAPITAL (US$ Millions)					
Authorised	**1,500**	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	**869.6**	790.5	744.0	697.5	651.0
PROFITABILITY					
Return on Average Owner's Equity	**11.7%**	10.9%	10.2%	13.0%	14.0%
Return on Average Parent's Shareholders Equity *	**9.8%**	8.7%	7.8%	10.0%	14.0%
Return on Average Assets	**1.3%**	1.3%	1.4%	1.9%	2.3%
Operating Expenses to Operating Income	**53.5%**	52.0%	48.7%	46.4%	51.6%
FINANCIAL POSITION					
Owner's Equity to Assets Ratio	**10.5%**	11.4%	13.2%	14.2%	15.5%
Total Financing and Investments as a Multiple of Equity (times)	**6.6**	6.3	5.4	5.2	4.7
Net Book Value per Share (US$)	**1.40**	1.42	1.40	1.30	1.32
OTHER INFORMATION					
Total Number of Employees	**9,021**	8,503	7,250	6,746	6,128
Total Number of Branches	**399**	370	289	283	243

* Return based on parent's share of income and equity.

3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The primary objectives of the Group’s capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves, and profit equalization reserve and investment risk reserve. From regulation's perspective, the significant amount of the Group's capital are in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)
The following table summarizes the eligible capital after deductions for calculation as of:

	31 December 2011		*31 December 2010*	
	Tier 1	***Tier 2***	*Tier 1*	*Tier 2*
	US$ '000	***US$ '000***	*US$ '000*	*US$ '000*
Tier 1 Capital Components				
Issued and fully paid up ordinary shares	**862,231**	-	783,972	-
Disclosed reserves				
Legal / statutory reserves	**65,384**	-	53,547	-
Share premium	**16,420**	-	15,866	-
Others	**102,102**	-	137,335	-
Retained profit brought forward	**167,584**	-	236,739	-
Unrealized gains arising from fair valuing equities (45% only)	**-**	-	5	-
Non-controlling interest in consolidated subsidiaries	**596,022**	-	593,525	-
Less:				
Goodwill	**76,593**	-	83,792	-
Unrealized gross losses arising from fair valuing equity securities	**46,515**	-	38,545	-
Tier 1 Capital before PCD deductions	**1,686,635**	**-**	1,698,652	**-**
Tier 2 Capital Components				
Unrealized gains arising from fair valuing equities (45% only)	**-**	**16,165**	-	16,083
Profit equalization reserve	**-**	**8,034**	-	2,667
Investment risk reserve	**-**	**93,653**	-	87,004
Tier 2 Capital before PCD deductions	**-**	**117,852**	-	105,754
Total Available Capital	**-**	**1,804,487**	-	1,804,406

3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15) (continued)

	31 December 2011		31 December 2010	
	Tier 1	Tier 2	Tier 1	Tier 2
	US$ '000	US$ '000	US$ '000	US$ '000
Deduction				
Investment in insurance entity greater than or equal to 20%	(4,114)	(4,114)	(4,521)	(4,521)
Net Available Capital	1,682,521	113,738	1,694,131	101,233
TOTAL ELIGIBLE CAPITAL		1,796,259		1,795,364

Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2011		31 December 2010	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	6,561,714	787,406	7,197,042	863,645
Market Risk	867,070	104,048	754,821	90,579
Operational Risk	1,264,498	151,740	1,167,578	140,109
	8,693,282	1,043,194	9,119,441	1,094,333

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts as of:

	31 December 2011		31 December 2010	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Islamic financing contracts				
Receivables	5,950,637	714,076	3,041,284	364,954
Mudaraba and Musharaka financing	280,206	33,625	617,380	74,086
Ijarah Muntahia Bittamleek	279,458	33,535	166,694	20,003
	6,510,301	781,236	3,825,358	459,043

3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))

The following are Capital adequacy ratios for total capital and Tier 1 capital as of:

	31 December 2011	*31 December 2010*
Total capital ratio	**20.66%**	19.69%
Tier 1 capital ratio	**19.35%**	18.58%

Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))

The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

	31 December 2011		*31 December 2010*	
	Tier 1 capital ratio	***Total capital ratio***	*Tier 1 capital ratio*	*Total capital ratio*
Head Office	**42%**	**42%**	47%	47%
Banque Al Baraka D'Algerie	**29%**	**30%**	29%	30%
Al Baraka Islamic Bank *	**17%**	**17%**	21%	21%
Al Baraka Bank Tunis	**25%**	**25%**	22%	22%
Al Baraka Bank Egypt	**21%**	**21%**	19%	19%
Al Baraka Bank Lebanon	**29%**	**30%**	52%	52%
Jordan Islamic Bank	**21%**	**21%**	23%	23%
Al Baraka Turk Participation Bank	**16%**	**16%**	17%	20%
Al Baraka Bank Limited	**28%**	**28%**	22%	23%
Al Baraka Bank Sudan	**17%**	**19%**	19%	20%
Al Baraka Bank Syria	**32%**	**32%**	42%	42%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 34% (2010: 34%) and total capital ratio of 34% (2010:34%).

Legal restrictions on capital and income mobility (PD-1.3.6 (c))

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))

The following table summarizes the distribution of ownership of shares by nationality/ incorporation as of:

Nationality/ Incorporation	***31 December 2011 % holding***	*31 December 2010 % holding*
Bahraini	**25.91**	25.87
Saudi	**44.96**	44.81
Cayman Islands	**19.33**	20.64
Emirati	**6.24**	5.16
Kuwaiti	**1.13**	1.11
Others	**2.43**	2.41

4 RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2011 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

The Group's risk management has the following objectives:

a. Unified Group-wide risk management to enable the Group to produce risk adjusted return on

b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Group-wide policies, processes and limits.

c. Professionally qualified staff and ongoing credit training.

d. Investing in technology and systems for best practice risk management.

e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.

f. Strict compliance with all Shari'a and legal requirements and regulatory directives.

g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

a) Liquidity risk

The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the subsidiary is funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

   i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the Group's subsidiaries manage their assets and liquidity profile to

   ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.

f. Periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

4 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

g. Review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The Group's subsidiaries undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 December 2011	*31 December 2010*
Short term assets to short term liabilities	**86%**	92%
Liquid assets to total assets	**32%**	27%

b) Credit risk

General credit policies and guiding principles

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

a) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.
b) Financing should be extended where there are at least two clear sources of repayments.
c) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.
d) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.
e) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.
f) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.
g) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.
h) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.
i) Propriety and ethical standards should be taken into account in all financing decisions.

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations.

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2011				*31 December 2010*			
	Self financed		***Financed by IAH***		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US$ '000	****Average gross credit exposure over the year US$ '000***	***Total gross credit exposure US$ '000***	****Average gross credit exposure over the year US$ '000***	*Total gross credit exposure US$ '000*	**Average gross credit exposure over the year US$ '000*	*Total gross credit exposure US$ '000*	**Average gross credit exposure over the year US$ '000*
Funded Exposure								
Receivables	**3,866,518**	**3,525,948**	**4,346,539**	**4,684,001**	3,184,754	2,712,278	4,878,577	4,779,995
Mudaraba and Musharaka financing	**457,105**	**392,581**	**493,830**	**527,093**	526,778	404,504	1,011,854	767,929
Investments	**964,652**	**926,974**	**1,125,601**	**1,080,010**	820,213	722,124	528,659	493,798
Ijarah Muntahia Bittamleek	**243,152**	**208,661**	**320,569**	**295,986**	180,818	161,218	258,983	238,074
Other assets	**83,153**	**97,727**	**82,696**	**81,164**	75,262	58,357	77,544	101,587
Unfunded Exposure								
Commitments and contingencies	**4,696,414**	**4,567,709**	**-**	**-**	4,391,687	4,510,846	58,541	43,387
	10,310,994	**9,719,600**	**6,369,235**	**6,668,254**	9,179,512	8,569,327	6,814,158	6,424,770

*Average Balances are computed based on quarter-end balances.

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2011, broken down into significant areas by major types of credit exposure:

	Self financed				***Financed by IAH***			
	Middle East US$ '000	***North Africa US$ '000***	***Europe US$ '000***	***Others US$ '000***	***Middle East US$ '000***	***North Africa US$ '000***	***Europe US$ '000***	***Others US$ '000***
Receivables	**1,116,660**	**506,330**	**2,100,978**	**142,550**	**1,968,093**	**368,664**	**1,686,894**	**322,888**
Mudaraba and Musharaka financing	**315,068**	**39,233**	**54,114**	**48,690**	**257,138**	**34,008**	**-**	**202,684**
Investments	**458,654**	**12,448**	**277,049**	**216,501**	**909,558**	**-**	**-**	**216,043**
Ijarah Muntahia Bittamleek	**141,933**	**84,286**	**10,026**	**6,907**	**239,587**	**56,751**	**1,688**	**22,543**
Other Assets	**39,292**	**25,982**	**1,991**	**15,888**	**37,991**	**17,841**	**2,885**	**23,979**
	2,071,607	**668,279**	**2,444,158**	**430,536**	**3,412,367**	**477,264**	**1,691,467**	**788,137**

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2010, broken down into significant areas by major types of credit exposure:

	Self financed				*Financed by IAH*			
	Middle East US$ '000	*North Africa US$ '000*	*Europe US$ '000*	*Others US$ '000*	*Middle East US$ '000*	*North Africa US$ '000*	*Europe US$ '000*	*Others US$ '000*
Receivables	895,205	505,340	1,646,783	137,426	1,839,866	370,892	2,329,793	338,026
Mudaraba and Musharaka financing	313,274	66,925	85,150	61,429	731,457	77,099	-	203,298
Investments	304,605	9,970	281,770	223,868	476,086	-	-	52,573
Ijarah Muntahia Bittamleek	105,188	57,191	9,875	8,564	190,974	34,906	6,913	26,190
Other Assets	32,781	19,485	2,660	20,336	31,433	12,759	5,643	27,709
	1,651,053	658,911	2,026,238	451,623	3,269,816	495,656	2,342,349	647,796

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2011:

	Funded Exposures										*Unfunded Exposures*		*Funded and Unfunded Exposures*	
	Receivables		*Mudaraba and Musharaka financing*		*Investments*		*Ijarah Muntahia Bittamleek*		*Other Assets*		*Commitments and contingencies*		*Total*	
	Self	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Claims	**65,712**	**53,889**	**-**	**-**	**628,669**	**758,370**	**-**	**18,971**	**-**	**-**	**58,743**	**-**	**753,124**	**831,230**
Claims on multi-lateral deve	**2,642**	**16,820**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,642**	**16,820**
Claims on investment firms	**177**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**177**	**-**
Claims	**240,408**	**425,197**	**238,383**	**51,372**	**122,836**	**197,958**	**-**	**35,437**	**-**	**-**	**196,871**	**-**	**798,498**	**709,964**
Claims	**2,847,567**	**2,317,003**	**12,153**	**8,538**	**-**	**10,481**	**60,095**	**84,076**	**-**	**-**	**4,164,099**	**-**	**7,083,914**	**2,420,098**
Claims	**690,129**	**1,444,125**	**-**	**-**	**-**	**-**	**182,897**	**181,816**	**-**	**-**	**276,701**	**-**	**1,149,727**	**1,625,941**
Past du	**19,883**	**89,505**	**-**	**-**	**-**	**520**	**160**	**269**	**-**	**-**	**-**	**-**	**20,043**	**90,294**
Equity	**-**	**-**	**121,755**	**73,824**	**101,764**	**49,611**	**-**	**-**	**-**	**-**	**-**	**-**	**223,519**	**123,435**
Investm	**-**	**-**	**-**	**-**	**66,618**	**25,314**	**-**	**-**	**-**	**-**	**-**	**-**	**66,618**	**25,314**
Specia	**-**	**-**	**84,814**	**360,096**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,814**	**360,096**
Other a	**-**	**-**	**-**	**-**	**44,765**	**83,347**	**-**	**-**	**83,153**	**82,696**	**-**	**-**	**127,918**	**166,043**
Total	**3,866,518**	**4,346,539**	**457,105**	**493,830**	**964,652**	**1,125,601**	**243,152**	**320,569**	**83,153**	**82,696**	**4,696,414**	**-**	**10,310,994**	**6,369,235**

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 10. Exposure by counterparty type (PD-1.3.23(c)) (continued)

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2010:

	Funded Exposures										*Unfunded Exposures*		*Funded and Unfunded Exposures*	
	Receivables		*Mudaraba and Musharaka financing*		*Investments*		*Ijarah Muntahia Bittamleek*		*Other Assets*		*Commitments and contingencies*		*Total*	
	Self	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*	*Self*	*IAH*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
	US$ '000		*US$ '000*		*US$ '000*		*US$ '000*		*US$ '000*		*US$ '000*		*US$ '000*	
Claims	89,571	152,869	9,964	-	151,767	80,119	-	-	-	-	88,701	-	340,003	232,988
Claims on multi-lateral deve	1,691	4,181	-	-	-	-	-	-	-	-	-	-	1,691	4,181
Claims on investment firms	87,219	127,173	-	65,050	5,030	-	-	-	-	-	6	-	92,255	192,223
Claims	138,979	470,852	34,105	70,317	14,825	3,876	2,194	87,475	-	-	65,212	-	255,315	632,520
Claims	2,089,279	2,681,966	210	22,604	-	-	51,197	40,912	-	-	4,033,497	28,033	6,174,183	2,773,515
Claims	708,336	1,290,027	-	-	-	-	125,795	129,599	-	-	204,271	30,508	1,038,402	1,450,134
Past du	69,679	151,509	-	11,033	-	-	1,632	997	-	-	-	-	71,311	163,539
Equity	-	-	96,353	77,758	541,685	325,025	-	-	-	-	-	-	638,038	402,783
Investn	-	-	-	-	53,764	56,477	-	-	-	-	-	-	53,764	56,477
Specia	-	-	386,146	765,092	-	-	-	-	-	-	-	-	386,146	765,092
Other a	-	-	-	-	53,142	63,162	-	-	75,262	77,544	-	-	128,404	140,706
Total	3,184,754	4,878,577	526,778	1,011,854	820,213	528,659	180,818	258,983	75,262	77,544	4,391,687	58,541	9,179,512	6,814,158

The Group is working in a highly regulated environment which monitors high risk credit exposures on a regular basis.

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Large Credit Exposure (PD - 1.3.23 (f))

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

There are no large exposures to individual counterparties where the exposure is in excess of the 15% individual obligor limit.

Past due, non-performing Islamic financing contracts and provisions (PD-1.3.22 (a))

Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing Islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2011:

					Aging of non performing Islamic financing contracts		
	Total US$ '000	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing Islamic financing contracts US$ '000*	*90 days to 1 year US$ '000*	*1 year to 3 years US$ '000*	*Over 3 years US$ '000*
Sovereign	**160,971**	**158,617**	**2,354**	**-**	**-**	**-**	**-**
Bank	**822,866**	**822,305**	**-**	**561**	**-**	**-**	**561**
Investment Firms	**203,555**	**158,397**	**-**	**45,158**	**5,218**	**18,037**	**21,903**
Corporates	**5,458,143**	**5,145,255**	**23,389**	**289,499**	**69,021**	**104,549**	**115,929**
Retail	**3,066,030**	**2,777,507**	**108,389**	**180,134**	**62,548**	**87,701**	**29,885**
	9,711,565	**9,062,081**	**134,132**	**515,352**	**136,787**	**210,287**	**168,278**

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b)) (continued)

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2010:

					Aging of non performing Islamic financing contracts		
	Total US$ '000	*Neither past due nor non performing US$ '000*	*Past due but performing US$ '000*	*Non performing Islamic financing contracts US$ '000*	*90 days to 1 year US$ '000*	*1 year to 3 years US$ '000*	*Over 3 years US$ '000*
Sovereign	687,628	687,037	591	-	-	-	-
Bank	969,222	967,887	752	583	-	-	583
Investment Firms	119,855	74,711	-	45,144	7,772	37,372	-
Corporates	5,293,315	4,957,434	20,286	315,595	87,825	120,788	106,982
Retail	3,048,414	2,788,510	86,732	173,172	80,770	69,318	23,084
	10,118,434	9,475,579	108,361	534,494	176,367	227,478	130,649

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2011:

	Specific provisions						
	Opening Balance US$ '000	***Charges during the year US$ '000***	***Write-Back during the year US$ '000***	***Write-offs during the year US$ '000***	***Appropriation from IAH during the year US$ '000***	***Foreign exchange translations/ others US$ '000***	***Balance at the end of the year US$ '000***
Bank	**2,832**	**411**	**(290)**	**-**	**-**	**(303)**	**2,650**
Investment Firms	**3,440**	**4,883**	**-**	**(96)**	**-**	**(233)**	**7,994**
Corporates	**277,547**	**68,193**	**(38,687)**	**(26,822)**	**9,306**	**(19,008)**	**270,529**
Retail	**89,987**	**7,737**	**(2,662)**	**(728)**	**14,477**	**(5,469)**	**103,342**
	373,806	**81,224**	**(41,639)**	**(27,646)**	**23,783**	**(25,013)**	**384,515**

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d)) (continued)

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2010:

	Specific provisions						
	Opening Balance US$ '000	*Charges during the year US$ '000*	*Write-Back during the year US$ '000*	*Write-offs during the year US$ '000*	*Appropriation from IAH during the year US$ '000*	*Foreign exchange translations/ others US$ '000*	*Balance at the end of the year US$ '000*
Bank	3,171	69	-	(1,085)	-	677	2,832
Investment Firms	2,814	3,360	-	-	-	(2,734)	3,440
Corporates	222,459	86,589	(33,031)	(13,969)	6,291	9,208	277,547
Retail	80,345	7,200	(8,809)	(380)	12,830	(1,199)	89,987
	308,789	97,218	(41,840)	(15,434)	19,121	5,952	373,806

Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of general provisions during the year ended:

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
Opening Balance	**12,128**	6,180
Charges during the year	**11,526**	8,295
Write-Back during the year	**(299)**	(4,092)
Write-offs during the year	**(12)**	(128)
Foreign exchange translations/ others	**(8,040)**	1,873
Balance at the end of the year	**15,303**	12,128

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

4 RISK MANAGEMENT (continued)

b) Credit Risk (continued)

Table - 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))

The following table summarises the total past due and non performing Islamic financing contracts and provisions disclosed by geographical area as of:

	31 December 2011			*31 December 2010*		
	Past due and non performing Islamic financing contracts US$ '000	***Specific provision US$ '000***	***General provision US$ '000***	*Past due and non performing Islamic financing contracts US$ '000*	*Specific provision US$ '000*	*General provision US$ '000*
Middle East	**315,184**	**224,956**	**14,513**	300,282	187,598	11,598
North Africa	**65,091**	**37,955**	**322**	68,529	40,938	513
Europe	**91,109**	**84,923**	**602**	120,548	103,219	18
Others	**178,100**	**36,681**	**(134)**	153,496	42,051	(1)
	649,484	**384,515**	**15,303**	642,855	373,806	12,128

Table - 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
Renegotiated Islamic financing contracts	**76,249**	173,879

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))
The Group has no significant obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

4 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 16. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of:

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
Gross positive fair value of contracts	**11,817,966**	11,390,636
Netting Benefits	**-**	-
Netted Current Credit Exposure	**11,817,966**	11,390,636
Collateral held:		
Cash	**532,164**	418,215
Others	**3,174,853**	2,415,825
Real Estate	**8,125,478**	7,944,054
	11,832,495	10,778,094

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

4 RISK MANAGEMENT (continued)

c) Market risk

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2011		*31 December 2010*	
	Equity position risk US$ '000	***Foreign exchange risk US$ '000***	*Equity position risk US$ '000*	*Foreign exchange risk US$ '000*
Risk weighted exposure (RWE)	**888**	**866,182**	6,023	748,798
Capital requirements (12%)	**107**	**103,942**	723	89,856
Maximum value of RWE	**6,988**	**1,054,250**	6,023	1,449,100
Minimum value of RWE	**888**	**866,182**	2,625	748,798

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

Displaced Commercial Risk

The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the individual subsidiary level.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group’s investment portfolio.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary’s assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position’s value that is 15% or higher than the subsidiary’s eligible capital to decide upon the appropriate course of action.

4 RISK MANAGEMENT (continued)

c) Market risk (continued)

Table – 18. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2011:

	Total gross exposure US$ '000	***Average gross exposure over the year US$ '000***	***Publicly held US$ '000***	***Privately held US$ '000***	***Capital requirement US$ '000***
Sukook and similar items	**1,708,751**	**1,566,382**	**76,803**	**1,631,948**	**4,775**
Equity Investment	**191,683**	**183,696**	**79,213**	**112,470**	**25,196**
Managed funds	**61,263**	**127,112**	**40,020**	**21,243**	**19,153**
	1,961,697	**1,877,190**	**196,036**	**1,765,661**	**49,124**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2010:

	Total gross exposure US$ '000	*Average gross exposure over the year US$ '000*	*Publicly held US$ '000*	*Privately held US$ '000*	*Capital requirement US$ '000*
Sukook and similar items	1,001,491	844,386	54,249	947,242	4,904
Equity Investment	150,279	204,873	49,376	100,903	123,599
Managed funds	77,787	61,502	45,967	31,820	16,902
	1,229,557	1,110,761	149,592	1,079,965	145,405

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

The following table summarises the cumulative realised and unrealised gains or losses during the year ended:

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
Cumulative realised gains arising from sales or liquidations in the reporting year	**8,323**	161
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	**(10,593)**	(2,805)
Unrealised gross losses included in Tier 1 Capital	**(46,515)**	(38,545)
Unrealised gains included in Tier 1 Capital (45% only)	**-**	5
Unrealised gains included in Tier 2 Capital (45% only)	**16,165**	16,083

4 RISK MANAGEMENT (continued)

c) Market risk (continued)

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

d) Operational Risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Table - 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income			
	2011	*2010*	*2009*	*2008*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Total Gross Income	**740,944**	648,741	633,513	585,871

	2011	*2010*
Indicators of operational risk		
Average Gross income (US$ '000)	**674,399**	622,708
Multiplier	**12.5**	12.5
	8,429,988	7,783,850
Eligible Portion for the purpose of the calculation	**15%**	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,264,498**	1,167,578

The Group has no material legal contingencies including pending legal action.

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules (3) Risk and Control Assessment (4) Internal Audit (5) Operational Risk and Basel II (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

− Risk Management Committee
− Head of Credit and Risk Management
− Head of Operational, Liquidity and Market Risk
− Various departments

4 RISK MANAGEMENT (continued)

d) Operational Risk (continued)

Operational Risk Management Framework (continued)

The Risk Control Self Assessment exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews.

The Key processes identified in a Risk Control Self Assessment are:

- Risk and Control Identification Process
- Measurement of Operational Risk Exposures
- Identifying Unacceptable Risk Exposures
- Risk Action Plans.

The Operational Risk framework will be subject to periodic internal audit.

5 CORPORATE GOVERNANCE

Board of Directors

The Bank's Board of Directors comprises of thirteen members, twelve of which are non-executive:

1) Saleh Abdullah M. Kamel (Chairman)
2) Abdulla Ammar Rahuma AlSaudi (Vice Chairman)
3) Abdullah Saleh A Kamel
4) Dr. Anwar Bin Ibrahim
5) Saleh M S Al Yousef
6) Ibrahim Fayez Humaid AlShamsi
7) Yousef Ali Fadil Bin Fadil
8) Jamal Saeed Juma Bin Ghallita
9) Fahad Abdullah A. Al Rajhi
10) Abdulellah A.A. Sabbahi
11) Adnan Ahmed Yousif Abdulmalek
12) Dr. Bassem Awadallah
13) Mohyedin Saleh Kamel

The new board members were given proper induction and background regarding their roles and responsibilities as a board member and as a member of the board various committees. All board members have signed the following code of business conduct and ethics.

Code of business conduct and ethics for members of the board of directors

Purpose:
The primary objectives of the following Code of Business Conduct and Ethics (the “Code”) is to enable each Director to focus on areas of ethical risks, to help them recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within the Group.

Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between their interests and those of the Group. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director’s personal interest is adverse to, or appears to be, adverse to the interests of the Group. Conflicts of interest also arise when a Director, or a member of their immediate family, receives an improper personal benefit as a result of their position as a Director of the Group. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:

1 Engagement in any conduct or activity which may conflict with the best interests of the Group, or which may disrupt or impair Group’s standing with any person or entity with whom or which the Group has to proposes to enter into a business or contractual relationship.
2 Acceptance of compensation (in any form) for services performed in relation to the Group from any source other than from the Group.
3 Acceptance by them or any member of their family of gifts from persons or entities who or which deal with the Group where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.
4 Utilization of the Group's assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

Confidentiality:
Confidential information includes all non-public information relating to the Group, whether in written or in oral form. Directors are under continuous obligation to maintain the confidentiality of information entrusted directly to them by the Group and any other confidential information about the Group which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures are mandated by the law.

5 CORPORATE GOVERNANCE (continued)

Board of Directors (continued)

Compliance with Rules, Laws and Regulation:
Directors shall, at all times, comply with all laws, rules and regulations applicable to the Group, including insider trading laws.

Board's Committees

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee
The Executive Committee is chaired by Mr. Abdullah Saleh M.Kamel and the other members are Mr. Adnan Ahmed Yousif, President and Chief Executive, Mr. Abdul Elah A. Sabbahi and Mr. Yousef Ali Fadil Bin Fadil. The Board has delegated certain of its day-to-day functions to the Executive Committee, including certain financial, administrative and credit matters.

Board Affairs and Remuneration Committee
The Board Affairs and Remuneration Committee is chaired by Mr. Ibrahim Fayez Al Shamsi and its other members are Mr. Jamal bin Ghalaita and Mr. Yousef Ali Fadil Bin Fadil. The Board Affairs and Remuneration Committee meets at least once a year and considers all material elements of remuneration policy and the remuneration and incentivisation of the Board, Executive Management Team and other employees and makes recommendations to the Board accordingly based on the total performance of the Group. The Committee also performs the role of a Nominations Committee.

The following table summarises remuneration of the Group’s Directors, Shari'a Committee members, President & Chief Executive, Deputy Chief Executive and the Department Heads at Group Headquarters during the year ended:

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
Directors remuneration	**850**	750
Executive Management		
Salary and other remuneration, including meeting allowance	**2,984**	2,997
Fees	**80**	83
Bonuses	**1,746**	1,383
Benefits-in-kind	**699**	616
	5,509	5,079
Shari'a Committee Members fee and remuneration	**258**	206
	6,617	6,035

Board Audit and Governance Committee
The Audit Committee is chaired by Mr. Saleh Mohammed Al-Yousef. Other members are Dr. Anwar Ibrahim, Mr. Ibrahim Fayez Al Shamsi and Dr. Bassem Awadallah. The Audit Committee meets formally at least four times a year and external auditors attend at least one meeting annually. The external auditors, moreover, have unrestricted access to the Audit Committee and its chairman throughout the year.

5 CORPORATE GOVERNANCE (continued)

Board's Committees (continued)

Board Audit and Governance Committee(continued)

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective system of accounting and financial control is in place. The Committee achieves this through regular review of the Group’s accounting and financial policies, financial reporting and disclosure controls and procedures and the adequacy and effectiveness of the internal control procedures at the Head Office and in ABG’s subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements, accounting standards and Shari’a requirements. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors and their remuneration and makes recommendations to the Board regarding the appointment and retirement of the external auditors and the appointment of the Head of the Group’s Internal Audit Departme

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board, including systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws, regulations and best practice standards and that all such information is produced on a timely basis. The various internal and financial controls and processes are subject to independent review by the Group’s Internal Audit Department, which reports directly to the Committee, and external auditors and regulators as appropriate. The reports of all these bodies are forwarded to the Board Audit and Governance Committee who, acting on behalf of the Board, ensures that appropriate corrective action is taken where required. The Committee is informed directly by Internal Audit’s reports submitted to it and by its discussions with external auditors of the work undertaken by them and their conclusions and recommendations.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a ‘whistleblower’ programme under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or alternatively to an identified officer or employee who in turn reports the matter to the Committee.

Risk Committee

The Risk Committee is chaired by Mr. Abdul Elah Sabbahi. Other members are Mr. Jamal Bin Ghalaita, Mr. Fahad Abdullah A. Al Rajhi, Mr. Mohyedin Saleh Kamel and Mr. Adnan Ahmed Yousif, President and Chief Executive. The Risk Committee meets formally at least four times a year and can call for the attendance of the Head of Credit and Risk Management and other Senior Executives of the Group. The Group’s risk appetite is determined by the Board, as recommended by the Risk Committee, which is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving senior management’s strategy for the managing of risk and for ensuring that all necessary steps are taken by senior management to identify, measure, monitor and control risk. Management has the prime responsibility for identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls.

5 CORPORATE GOVERNANCE (continued)

Executive Management

In affecting full control over the Group, the Group's Executive Management Team has developed a system for filtering down to Group subsidiaries the centralised strategic decisions taken at the parent level, thus ensuring the implementation of Group wide policies and common operational processes and procedures.

As at the end of 2011, the team consisted of the President and Chief Executive, the Deputy Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury and Investment, Operations and Administration, Legal Affairs and Compliance and Corporate Governance.

Executive Management also exercises control via the following Committees, which have the following specific responsibilities:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President and Chief Executive with the remaining membership comprising the Deputy Chief Executive and the Heads of Strategic Planning, Operations and Administration, Credit and Risk Management and Treasury and Investment, with the Heads of Financial Control and Internal Audit as observer members.

Asset and Liability Committee ("ALCO")

The ALCO's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Group and sets statement of financial position growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President and Chief Executive and its remaining members are the Heads of Treasury and Investment, Credit and Risk Management, Strategic Planning, Financial Control and Operations and Administration, together with a senior member from the Bahrain based subsidiary, Al Baraka Islamic Bank.

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President and Chief Executive, with the remaining membership being drawn from among the Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks and introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President and Chief Executive with remaining membership comprising the Heads of Operations and Administration, Financial Control and Credit and Risk Management and the Manager of Credit Review and Analysis.

Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Deputy Chief Executive with remaining membership comprising the Heads of Financial Control, Strategic Planning and Operations and Administration, together with senior support nominees from the Group.

Human Resources and Compensation Committee

The role of the Human Resources and Compensation Committee is to review the Human Resources policies, management and planning at the Group's head office. The Committee is chaired by the Deputy Chief Executive with the remaining membership comprising the Heads of Operations and Administration, Strategic Planning and Financial Control.

5 CORPORATE GOVERNANCE (continued)

Head Office Insiders Committee

The Insiders Committee has been formed in accordance with the guidelines issued by the CBB and the Bahrain Bourse. The rationale behind the guidelines is to ensure the maintenance of a fair, orderly and transparent securities market and to enhance and develop the practices relating to the risk management systems and internal controls within listed companies and other similar institutions. The objectives of the Insiders Committee are to monitor and supervise issues relating to insiders and to regulate their dealings in the Group's securities and to ensure that the Group's insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of insider information by such insiders. The Committee is chaired by the President and Chief Executive and the other members are the Deputy Chief Executive and the Heads of Internal Audit, Legal and Compliance, Operations and Administration and Investors' Relations (who is also the Registrar and Committee Secretary).

Other Committees

The Management forms ad hoc committees as and when required to address specific initiatives in which the Group may be engaged from time to time.

The Group Disclosure Policy

The Group communication strategy aims to help achieve the Group's aim of keeping the market informed of material information. The Group's communications with the market ensures compliance with the CBB's directives with regards to its Public Disclosure Module of its Rulebook, Volume 2, Part A and its requirements stipulated in the Capital Market.

Material information is any information, financial or non-financial, relating to the business and affairs of the Group and its subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's share or in the decision of a prudent investor to either sell, buy or hold the Group's share or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its subsidiaries. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and its subsidiaries.

Despite the fact that the Group does not keep a checklist according to which the Group determines which information is material or immaterial, the Group recognises the importance of all relevant factors in each situation. The Group is directed in general by the following developments that constitute material information, this list is not inclusive:

- Changes in share ownership of the Group
- Changes in corporate structure of the Group, such as reorganisations, mergers, etc.;
- Public or private sale of additional securities (such as Sukook), or planned acquisition;
- Changes in the Group's dividend policy, or other material modifications to the rights of shareholders;
- Take-over bids;
- Changes in capital structure of the Group;
- Borrowing or lending of a significant amount of funds;
- Changes in rating agency decisions (downgrade or upgrade);
- Development of new products that might consequently affect the Group's existing products or markets;
- Changes in financial results, including significant increases or decreases in near-term earnings prospects; this includes all the important financial indicators that affect the Group's earning, balance sheet position, cash flow position and liquidity position;
- Material changes in accounting policies;
- Significant changes in capital investment plans or Group's corporate objectives and priorities;
- Significant changes in the Group's capital adequacy;
- Changes in the Group's Board of Directors or members of executive management;
- Commencement of, or developments in, material legal proceedings or regulatory matters;

5 CORPORATE GOVERNANCE (continued)

The Group Disclosure Policy (continued)

- Major labour disputes;
- Significant changes in the existing business models of the subsidiaries;
- Material negative changes of subsidiaries' capital adequacy ratios;
- Material positive as well as negative earning or earnings indicators generated by the subsidiaries;
- Major economic or political events in the subsidiaries’ countries that the Group reasonably and prudently believes would cause material impact on the financial position.

The Group is committed to complying with the CBB’s rules and regulations with regards to the dissemination of the Group’s financial information/statements on quarterly, semi annual and annual basis plus any ad hoc information requirement requested by the CBB. Since it is a listed company on Bahrain Bourse and NASDAQ Dubai, the Group is committed to adhere to all the periodic information dissemination required by Bahrain Bourse and NASDAQ Dubai as stipulated in their directives/rulebooks

In addition to that, the Group will publicly disclose and broadly disseminate material information either:

- Immediately upon becoming aware of circumstances or events that underlie the material
- When a decision to implement a change is made by the Board of Directors or executive management of the Group.

As a listed company, the Group follows strict policy of who should make press releases or announce to the public financial or non-financial information, about the Group. Only the following persons are authorised to make public information via media:

1 Chairman of the Board
2 Vice chairman of the Board
3 President and Chief Executive

In case any one of the above is asked to make statements relating to the consolidated financial statements, indicators or to general financial performance of the Group, the person consults and/or confirms with the Head of Financial Control with regards to the accuracy, timeliness and reliability of the information before any public announcement.

The Group mails its consolidated financial statements and Prudential Returns to the CBB, Bahrain Bourse, and NASDAQ Dubai on quarterly, and annual basis. The Group makes all this information also available on its website.

Press release are posted on the Group’s website and published in the local newspapers in Arabic and English. The Group’s authorised persons for public disclosure should not make any announcement on a one-on-one basis before disseminating the information on its website or via local newspapers.

The Group is committed to adhere to all the requirements outlined in the CBB’s Rulebook, volume 2 – Part A, Public Disclosure Requirements Section.

In order for the Group to be in full compliance to the CBB disclosure requirements in the above mentioned Rulebook, the Group will disclose all the required information in its published quarterly reviewed consolidated financial statements and annual audited consolidated financial statements which are the responsibility of the Financial Control Department. However, some information is not peculiar to the Financial Control Department. Therefore, all the concerned departments under the CBB disclosure requirements (e.g. Administration and Operation, Credit and Risk Management, Compliance and Internal Audit department) must provide the Financial Control Department with the required information on a timely basis in order for the later to prepare the Group consolidated financial statements as stipulated by the

5 CORPORATE GOVERNANCE (continued)

Compliance

Regulation
The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management.

The CBB as the home regulator sets and monitors the Bank's capital requirements on both a consolidated and an unconsolidated basis, while the Group's individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

The CBB currently requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to on and off balance sheet risk-weighted assets of 12%, which requirement exceeds the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. However, the new Capital Accord (Basel II) announced by the Basel Committee to replace the 1988 Accord is designed to achieve a more sophisticated degree of risk differentiation in establishing the amount of capital that banks should allocate to different categories of their credit risk exposure, in addition to including a capital charge for operational risk and incorporating an earlier guideline in relation to capital charges for market risk. Regulators will have wider discretion to increase or decrease capital requirements for banks according to their individual circumstances.

The new rules will also require greater transparency of published information relating to bank risk management. The Group has taken the necessary steps to achieve in time the required degree of sophistication in risk assessment which will enable it to comply with the requirements of Basel II as stipulated by the CBB.

Anti-Money Laundering
The Group has implemented the CBB's anti-money laundering regulations, including the appointment of a Group Money Laundering Reporting Officer (MLRO) - which position is held by the Head of Operations and Administration, who also oversees the individual MLROs in each of the constituent banks. The intention is to implement a Group wide overall policy for anti-money laundering at the Bank level, taking into account the practice existing at the various Group subsidiaries and complying with the CBB's anti-money laundering regulations.

Financial Performance Monitoring
The Group's management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively, where under all subsidiaries submit their financial data in a format that is compatible with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These are consolidated on quarterly andannual basis and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Information Technology
Upon the formation of the Group, one of the earliest challenges identified was the need to move as swiftly as possible towards integration of the banking subsidiaries' diverse databases into a Group environment, in order to facilitate the creation of a common information platform. It was decided that, with the complex problems involved in bringing ten different banking operations under one central organisational umbrella, it would be necessary to move in stages.

The first stage entailed the creation of an integrated financial management information structure, whereby each subsidiaries' financial data could be recorded unto a web-based environment which would allow for the data to be combined with those of the other subsidiaries and, after consolidation adjustments, used to produce consolidated statutory financial statements and MIS reports.

5 CORPORATE GOVERNANCE (continued)

Compliance (continued)

Information Technology (continued)
These original aims were accomplished in an impressively short time, such that the Bank is now consolidated into a fully synergised operation and, following its extremely successful IPO in 2006, poised for further expansion into the global market. With technology being such a vital prerequisite to this expansion, especially in the highly-competitive Islamic banking market, the Bank IT Steering Committee commenced its activities in 2007 by drawing up both a short and long term IT strategy. The implementation of this strategy is continuously overseen and monitored by the Committee, with a view to effective standardisation of information and operation management throughout the Group.

The Group developed a Business Intelligence Roadmap for implementing its web-based financial consolidation application, and a Corporate Performance Measurement methodology using Key Performance Indicators to set performance benchmarks for each subsidiary and to monitor them on a continuous basis. The Roadmap will be further enhanced to include elements of exposure management across the Group, including elements of risk management reporting and setting the stage for Basel II compliance. With regards to new products, the Group introduces all related information via its web-site and press releases issued by the Group's President and Chief Executive.

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and is therefore akin to reputation risk. Group subsidiaries have in place systems and controls, including oversight of their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and

Remuneration
The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

Complaints
The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's executive management.

Related party transactions
Related party transactions are governed by the Group corporate governance policy and individual subsidiaries' local rules and regulations. All related party transactions were conducted at arm's length.

External Auditors
The fees for the auditing of financial statements of US$ 287 thousand (2010: US$ 262 thousand) mainly comprise those for the audits of the consolidated financial statements of the Group. Fees for the non-audit services of US$ 153 thousand (2010: US$ 152 thousand) primarily relates to review of interim financial statements, agreed upon procedures services related to CBB quarterly prudential report, anti-money laundering, CBB annual and semi-annual additional public disclosures requirements.

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2011 financial year. The AGM has approved the reappointment on 25 March 2011 and the related regulatory approval were taken in due course.

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis. IAH funds are invested and managed in accordance with Shari'a requirements.

Table – 21. Equity of IAH (PD-1.3.33 (a), (b) & (c))

The following table summarises the breakdown of IAH and return on IAH as of:

	31 December 2011 US$ '000	*31 December 2010 US$ '000*
IAH - Banks	**287,751**	269,704
IAH - Non-banks	**10,071,167**	9,871,277
Profit equalisation reserve (PER) - Banks	**228**	71
Profit equalisation reserve (PER) - Non-banks	**7,806**	2,596
Investment risk reserve (IRR) - Banks	**2,654**	2,314
Investment risk reserve (IRR) - Non-banks	**90,999**	84,690
Cumulative changes in fair value attributable to IAH	**5,313**	9,454
	10,465,918	10,240,106

Table – 22. Return on average IAH (PD-1.3.33 (d))

	2011 %	*2010* %
Return on average IAH Equity	**5.4**	5.5
Return on average IAH Assets	**7.7**	8.1

Table – 23. Ratio by type of IAH (PD-1.3.33 (g))

	31 December 2011 %	*31 December 2010* %
IAH - Banks	**3**	3
IAH - Non-banks	**97**	97

The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))

The following table summarises the percentage of IAH financing for each type of Shari'a-compliant contract to total IAH financing as of:

	31 December 2011 %	*31 December 2010 %*
Receivables	**84**	80
Mudaraba and Musharaka financing	**10**	16
Ijarah Muntahia Bittamleek	**6**	4

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES (continued)

Table – 25. IAH by Counterparty Type (PD-1.3.33 (i))

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

	31 December 2011	*31 December 2010*
	%	*%*
Sovereign	**2**	2
Bank	**10**	8
Investment Firms	**1**	3
Corporates	**16**	22
Retail	**71**	65

IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

Table – 26. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2011			*31 December 2010*		
	Opening Actual Allocation US$ '000	***Movement US$ '000***	***Closing Actual Allocation US$ '000***	*Opening Actual Allocation US$ '000*	*Movement US$ '000*	*Closing Actual Allocation US$ '000*
Cash and balances with banks	**3,434,903**	**555,744**	**3,990,647**	2,827,499	548,461	3,375,960
Receivables	**4,883,977**	**(537,438)**	**4,346,539**	4,349,289	529,288	4,878,577
Mudaraba and Musharaka financing	**538,055**	**(44,225)**	**493,830**	639,942	371,912	1,011,854
Investments	**1,094,995**	**30,609**	**1,125,604**	460,974	67,685	528,659
Ijarah Muntahia Bittamleek	**287,340**	**33,228**	**320,568**	228,194	30,789	258,983
Other assets	**205,278**	**(16,548)**	**188,730**	143,371	42,702	186,073
	10,444,548	**21,370**	**10,465,918**	8,649,269	1,590,837	10,240,106

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES (continued)

Table – 27. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of:

	31 December 2011			*31 December 2010*		
Type of Claims	***RWA US$ '000***	***RWA for Capital adequacy purposes US$ '000***	***Capital Charges US$ '000***	*RWA US$ '000*	*RWA for Capital adequacy purposes US$ '000*	*Capital Charges US$ '000*
Claims on Sovereign	**308,069**	**92,421**	**11,091**	14,783	4,435	532
Claims on PSEs	**3,284**	**985**	**118**	37,577	11,273	1,353
Claims on MDBs	**-**	**-**	**-**	2,091	627	75
Claims on Banks	**269,538**	**80,861**	**9,703**	281,675	84,503	10,140
Claims on Corporates	**3,727,770**	**1,118,331**	**134,200**	4,373,018	1,311,905	157,429
Regulatory Retail Portfolio	**672,041**	**201,612**	**24,193**	679,158	203,747	24,450
Mortgage	**587,385**	**176,216**	**21,146**	392,520	117,756	14,131
Past due facilities	**120,301**	**36,090**	**4,331**	170,497	51,149	6,138
Investment in securiti	**197,142**	**59,143**	**7,097**	629,825	188,948	22,674
Holding of Real Estat	**186,584**	**55,975**	**6,717**	156,606	46,982	5,638
Other Assets	**525,475**	**157,643**	**18,917**	907,099	272,130	32,656
	6,597,589	**1,979,277**	**237,513**	7,644,849	2,293,455	275,216

7 OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

Off-balance sheet equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.