Al Baraka Banking Group B.S.C.

Additional Public Disclosures

(Unaudited)

Content		Page

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 Stock Exchange 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 2010*	*Ownership for 2009*	*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 [formerly Egyptian Saudi Finance Bank (ESFB)]	73.68%	73.68%	1980	Egypt
Al Baraka Bank Lebanon (ABBL)	98.50%	99.98%	1991	Lebanon
Jordan Islamic Bank (JIB)	66.01%	66.50%	1979	Jordan
Al Baraka Turk Participation Bank (ATPB)	56.64%	56.64%	1985	Turkey
Al Baraka Bank Limited (ABL)	56.29%	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

Company/ Bank *Held indirectly by the Bank*	*Subsidiary held through*	*Effective Ownership for 2010*	*Effective Ownership for 2009*	*Year of incorporation*	*Country of incorporation*
Al Baraka Bank (Pakistan) Limited	AIB	58.90%	-	2010	Pakistan
Al- Rizq Trading Company	JIB	59.40%	59.85%	1994	Jordan
Al-Omariya School Company	JIB	62.31%	63.04%	1987	Jordan
Al-Samaha Real Estate Company	JIB	66.01%	66.50%	1998	Jordan
Future Applied Computer Technology Company	JIB	66.01%	66.50%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	66.01%	66.50%	2006	Jordan
Dar Al Baraka	BAA	-	55.90%	2003	Algeria
Al Baraka Properties (Pty) Ltd.	ABL	56.29%	53.60%	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 2010 to 31 December 2010.

2 FINANCIAL HIGHLIGHTS

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

EARNINGS (US$ Millions)	***2010***	*2009*	*2008*	*2007*	*2006*
Total Operating Income	**659**	634	586	444	340
Net Operating Income	**316**	325	314	215	173
Net Income	**193**	167	201	201	124
Net Income Attributable to Equity Shareholders of the Parent	**106**	92	114	144	80
Basic and diluted earnings per share - US cents	**13.46**	11.61	14.38	18.24	10.15
FINANCIAL POSITION (US$ Millions)					
Total Assets	**15,880**	13,166	10,920	10,104	7,626
Total Financing and Investments	**11,392**	9,431	8,088	7,389	5,466
Total Deposits	**13,571**	10,999	8,872	8,084	6,147
Total Equity	**1,818**	1,737	1,550	1,570	1,211
Equity Attributable to Shareholders of the Parent	**1,225**	1,214	1,131	1,144	979
CAPITAL (US$ Millions)					
Authorised	**1,500**	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	**790.5**	744	697.5	651	630
PROFITABILITY					
Return on Average Equity	**10.9%**	10.2%	13.0%	14.0%	13.0%
Return on Average Shareholders Equity *	**8.7%**	7.8%	10.0%	14.0%	10.0%
Return on Average Assets	**1.3%**	1.4%	1.9%	2.3%	1.8%
Operating Expenses to Operating Income	**52.0%**	48.7%	46.4%	51.6%	49.1%
FINANCIAL POSITION					
Equity to Assets Ratio	**11.4%**	13.2%	14.2%	15.5%	15.9%
Total Financing and Investments as a multiple of Equity (times)	**6.3**	5.4	5.2	4.7	4.5
Net Book Value per Share (US$)	**1.56**	1.54	1.43	1.45	1.24
OTHER INFORMATION					
Total Number of Employees	**8,503**	7,250	6,746	6,128	5,435
Total Number of Branches	**370**	289	283	243	216

* 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 the unrestricted investment account reserves. 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 2010		*31 December 2009*	
	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	**783,972**	-	744,000	-
Disclosed reserves				
Legal / statutory reserves	**53,547**	-	42,986	-
Share premium	**15,866**	-	99,390	-
Others	**137,335**	-	121,282	-
Retained profit brought forward	**236,739**	-	189,401	-
Unrealized gains arising from fair valuing equities (45% only)	**5**	-	4,542	-
Non-controlling interest in consolidated subsidiaries	**593,525**	-	522,485	-
Less:				
Goodwill	**83,792**	-	62,423	-
Unrealized gross losses arising from fair valuing equity securities	**38,545**	-	114	-
Tier 1 Capital before PCD deductions	**1,698,652**	**-**	1,661,549	**-**
Tier 2 Capital Components				
Asset revaluation reserve - Property, plant, and equipment (45% only)	**-**	**-**	-	3,294
Unrealized gains arising from fair valuing equities (45% only)	**-**	**16,083**		
Profit equalization reserve	**-**	**2,667**	-	2,304
Investment risk reserve	**-**	**87,004**	-	65,226
Tier 2 Capital before PCD deductions	**-**	**105,754**	-	70,824
Total Available Capital	**-**	**1,804,406**	-	1,732,373

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 2010		31 December 2009	
	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%	**(4,521)**	**(4,521)**	(6,758)	(6,758)
Net Available Capital	**1,694,131**	**101,233**	1,654,791	64,066
TOTAL ELIGIBLE CAPITAL		**1,795,364**		1,718,857

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 2010		31 December 2009	
	Risk weighted assets US$ '000	***Minimum capital requirements US$ '000***	*Risk weighted assets US$ '000*	*Minimum capital requirements US$ '000*
Credit Risk	**7,197,042**	**863,645**	5,627,059	675,247
Market Risk	**754,821**	**90,579**	862,594	103,511
Operational Risk	**1,167,578**	**140,109**	1,039,899	124,788
	9,119,441	**1,094,333**	7,529,552	903,546

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 2010		31 December 2009	
	Risk weighted assets US$ '000	***Minimum capital requirements US$ '000***	*Risk weighted assets US$ '000*	*Minimum capital requirements US$ '000*
Islamic financing contracts				
Receivables	**3,041,284**	**364,954**	3,119,370	374,324
Mudaraba and Musharaka financing	**617,380**	**74,086**	526,576	63,189
Ijarah Muntahia Bittamleek	**166,694**	**20,003**	54,280	6,514
	3,825,358	**459,043**	3,700,226	444,027

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 2010	*31 December 2009*
Total capital ratio	**19.69%**	22.83%
Tier 1 capital ratio	**18.58%**	21.98%

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 2010		*31 December 2009*	
	Tier 1 capital ratio	***Total capital ratio***	*Tier 1 capital ratio*	*Total capital ratio*
Head Office	**47%**	**47%**	74%	74%
Banque Al Baraka D'Algerie	**29%**	**30%**	32%	33%
Al Baraka Islamic Bank	**21%**	**21%**	22%	22%
Al Baraka Bank Tunis	**22%**	**22%**	20%	20%
Al Baraka Bank Egypt	**19%**	**19%**	20%	20%
Al Baraka Bank Lebanon	**52%**	**52%**	43%	43%
Jordan Islamic Bank	**23%**	**23%**	21%	22%
Al Baraka Turk Participation Bank	**17%**	**20%**	22%	22%
Al Baraka Bank Limited	**22%**	**23%**	26%	26%
Al Baraka Bank Sudan	**19%**	**20%**	15%	19%
Al Baraka Bank Syria	**42%**	**42%**	243%	243%

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 31 December 2010:

Nationality/ Incorporation	***% holding***
Bahraini	25.87
Saudi	44.81
Cayman Islands	20.64
Emirati	5.16
Kuwaiti	1.11
Others	2.41

4 RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2010 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 capital.

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 mitigate the risk; and

   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 2010	*31 December 2009*
Short term assets to short term liabilities	**92%**	97%
Liquid assets to total assets	**27%**	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 unrestricted investment accounts (URIA) 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 2010				*31 December 2009*			
	Self financed		***Financed by URIA***		*Self financed*		*Financed by URIA*	
	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	**3,184,754**	**2,712,278**	**4,878,577**	**4,779,995**	2,831,180	1,511,267	4,195,884	243,820
Mudaraba and Musharaka financing	**526,778**	**404,504**	**1,011,854**	**767,929**	316,785	265,171	664,327	22,581
Investments	**821,822**	**722,124**	**528,659**	**493,798**	652,751	407,393	435,285	130,799
Ijarah Muntahia Bittamleek	**180,818**	**161,218**	**258,983**	**238,074**	146,869	89,381	188,464	-
Other assets	**75,262**	**58,357**	**77,544**	**101,587**	125,163	68,754	59,713	118,915
Unfunded Exposure								
Commitments and contingencies	**4,391,687**	**4,510,846**	**58,541**	**43,387**	3,825,593	3,146,925	-	-
	9,181,121	**8,569,327**	**6,814,158**	**6,424,770**	**7,898,341**	**5,488,891**	5,543,673	516,115

*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 2010, broken down into significant areas by major types of credit exposure:

	Self financed				*Financed by URIA*			
	Middle East	***North Africa***	***Europe***	***Others***	***Middle East***	***North Africa***	***Europe***	***Others***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***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**	**283,273**	**223,974**	**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**	**2,027,741**	**451,729**	**3,269,816**	**495,656**	**2,342,349**	**647,796**

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2009, broken down into significant areas by major types of credit exposure:

	Self financed				*Financed by URIA*			
	Middle East	*North Africa*	*Europe*	*Others*	*Middle East*	*North Africa*	*Europe*	*Others*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Receivables	908,589	616,411	1,187,602	118,578	1,642,441	445,470	1,854,009	253,964
Mudaraba and Musharaka financing	181,332	61,755	49,614	24,084	461,235	72,211	-	130,881
Investments	302,406	8,907	222,607	118,831	402,706	-	-	32,579
Ijarah Muntahia Bittamleek	84,031	40,401	18,562	3,875	135,338	23,449	17,127	12,550
Other Assets	74,374	34,621	2,993	13,175	22,856	20,879	6,892	9,086
	1,550,732	762,095	1,481,378	278,543	2,664,576	562,009	1,878,028	439,060

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 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	URIA	Self	URIA	Self	URIA	Self	URIA	Self	URIA	Self	URIA	Self	URIA
	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 on sovereigns	89,571	152,869	9,964	-	22,032	27,375	-	-	-	-	88,701	-	210,268	180,244
Claims on multi-lateral development banks	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 on banks	138,979	470,852	34,105	70,317	14,825	3,876	2,194	87,475	-	-	65,212	-	255,315	632,520
Claims on corporates	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 on retails	708,336	1,290,027	-	-	-	-	125,795	129,599	-	-	204,271	30,508	1,038,402	1,450,134
Past dues receivables	69,679	151,509	-	11,033	-	-	1,632	997	-	-	-	-	71,311	163,539
Equity investment	-	-	96,353	77,758	543,294	325,025	-	-	-	-	-	-	639,647	402,783
Sukook	-	-	-	-	129,735	52,744	-	-	-	-	-	-	129,735	52,744
Investment in Funds	-	-	-	-	53,764	56,477	-	-	-	-	-	-	53,764	56,477
Specialized Lending	-	-	386,146	765,092	-	-	-	-	-	-	-	-	386,146	765,092
Other assets	-	-	-	-	53,142	63,162	-	-	75,262	77,544	-	-	128,404	140,706
Total	3,184,754	4,878,577	526,778	1,011,854	821,822	528,659	180,818	258,983	75,262	77,544	4,391,687	58,541	9,181,121	6,814,158

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 2009:

	Funded Exposures										*Unfunded Exposures*		*Funded and Unfunded Exposures*	
	Receivables		*Mudaraba and Musharaka*		*Investments*		*Ijarah Muntahia*		*Other Assets*		*Commitments and*		*Total*	
	Self	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*	*Self*	*URIA*
	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 on sovereigns	26,296	43,828	-	-	-	-	-	-	-	-	16,867	-	43,163	43,828
Claims on multi-lateral development banks	9,120	15,200	-	-	-	-	-	-	-	-	-	-	9,120	15,200
Claims on investment firms	94,428	157,381	6,103	10,171	-	-	7,529	12,549	-	-	-	-	108,060	180,101
Claims on banks	189,002	315,003	-	-	375	625	497	827	-	-	127,051	-	316,925	316,455
Claims on corporates	1,656,286	2,237,727	6,166	10,276	871	1,451	20,005	33,342	-	-	3,488,698	-	5,172,026	2,282,796
Claims on retails	735,262	1,225,436	-	-	-	-	116,183	138,008	-	-	178,966	-	1,030,411	1,363,444
Past dues receivables	117,033	195,055	613	1,021	-	-	699	1,166	-	-	74	-	118,419	197,242
Equity investment	-	-	262,592	414,625	124,429	193,729	-	-	-	-	-	-	387,021	608,354
Sukook	-	-	-	-	459,417	126,715	-	-	-	-	-	-	459,417	126,715
Investment in Funds	-	-	-	-	29,662	49,438	-	-	-	-	-	-	29,662	49,438
Specialized Lending	-	-	40,053	226,136	-	-	-	-	-	-	-	-	40,053	226,136
Other assets	3,753	6,254	1,258	2,098	37,997	63,327	1,956	2,572	125,163	59,713	13,937	-	184,064	133,964
Total	2,831,180	4,195,884	316,785	664,327	652,751	435,285	146,869	188,464	125,163	59,713	3,825,593	-	7,898,341	5,543,673

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 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**

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 2009:

					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	94,890	93,659	1,231	-	-	-	-
Bank	702,848	701,810	263	775	-	-	775
Investment Firms	108,649	105,354	-	3,295	118	2,616	561
Corporates	5,023,680	4,567,872	143,802	312,006	128,926	66,937	116,143
Retail	2,565,460	2,362,469	47,354	155,637	72,745	71,986	10,906
	8,495,527	7,831,164	192,650	471,713	201,789	141,539	128,385

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 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 (to) URIA 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**

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 2009:

	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 (to) URIA during the year US$ '000*	*Foreign exchange translations/ others US$ '000*	*Balance at the end of the year US$ '000*
Bank	2,508	388	(254)	-	67	462	3,171
Investment Firms	-	2,836	-	-	-	(22)	2,814
Corporates	144,743	130,634	(23,321)	(32,457)	(320)	3,180	222,459
Retail	81,428	5,677	(13,239)	-	6,989	(510)	80,345
	228,679	139,535	(36,814)	(32,457)	6,736	3,110	308,789

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 2010 US$ '000	*31 December 2009 US$ '000*
Opening Balance	**6,180**	7,151
Charges during the year	**8,295**	1,582
Write-Back during the year	**(4,092)**	(235)
Write-offs during the year	**(128)**	(2,345)
Foreign exchange translations/ others	**1,873**	27
Balance at the end of the year	**12,128**	6,180

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 2010			*31 December 2009*		
	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	**300,282**	**187,598**	**11,598**	303,751	137,291	5,894
North Africa	**68,529**	**40,938**	**513**	219,036	42,660	267
Europe	**120,548**	**103,219**	**18**	113,730	102,208	19
Others	**153,496**	**42,051**	**(1)**	27,846	26,630	-
	642,855	**373,806**	**12,128**	664,363	308,789	6,180

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

	31 December 2010 US$ '000	*31 December 2009 US$ '000*
Renegotiated Islamic financing contracts	**173,879**	90,680

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 2010 US$ '000	*31 December 2009 US$ '000*
Gross positive fair value of contracts	**11,392,245**	9,431,545
Netting Benefits	**-**	-
Netted Current Credit Exposure	**11,392,245**	9,431,545
Collateral held:		
-Cash	**418,215**	309,286
-Others	**2,415,825**	2,454,005
-Real Estate	**7,944,054**	5,884,709
	10,778,094	8,648,000

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 2010		*31 December 2009*	
	Equity position risk US$ '000	***Foreign exchange risk US$ '000***	*Equity position risk US$ '000*	*Foreign exchange risk US$ '000*
Risk weighted exposure (RWE)	**482**	**59,904**	149	68,859
Capital requirements (12%)	**58**	**7,188**	18	8,263
Maximum value of RWE	**482**	**115,928**	314	68,859
Minimum value of RWE	**210**	**59,904**	149	44,662

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 URIA. The profit distribution to URIA 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 unrestricted investment accounts (URIA) profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in URIA 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.

Available for sale investments 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 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	**1,003,100**	**844,386**	**55,858**	**947,242**	**4,904**
Equity Investment	**150,279**	**204,873**	**49,376**	**100,903**	**123,599**
Funds	**77,787**	**61,502**	**45,967**	**31,820**	**16,902**
	1,231,166	**1,110,761**	**151,201**	**1,079,965**	**145,405**

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 2009:

	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	668,973	628,654	33,734	635,240	64,390
Equity Investment	238,166	207,835	98,282	139,884	35,308
Funds	78,645	60,205	49,266	29,378	18,928
	985,784	896,694	181,282	804,502	118,626

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 2010 US$ '000	*31 December 2009 US$ '000*
Cumulative realised gains arising from sales or liquidations in the reporting year	**271**	1,004
Total unrealized gains recognised in the consolidated statement of financial positions but not through consolidated statement of income	**(2,805)**	9,979
Unrealised gross losses included in Tier One Capital	**38,545**	114
Unrealised gains included in Tier One Capital (45% only)	**5**	4,542

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			
	2010	*2009*	*2008*	*2007*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Total Gross Income	**658,574**	633,513	585,871	444,454

	2010	*2009*
Indicators of operational risk		
Average Gross income (US$ '000)	**625,986**	554,613
Multiplier	**12.5**	12.5
	7,824,825	6,932,663
Eligible Portion for the purpose of the calculation	**15%**	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,173,724**	1,039,899

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) Samer Mohammed Adnan Farhoud
10) Abdulellah A.A. Sabbahi
11) Adnan Ahmed Yousif Abdulmalek
12) Dr. Bassem Awadallah
13) Mohyedin Saleh Kamel

The new boards were given proper induction and background regarding their rules 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”) are to enable each Director to focus on areas of ethical risks, to help him/her to recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within ABG and each of its Units.

Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between his/her interests and those of ABG. 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 ABG. Conflicts of interest also arise when a Director, or a member of his or her immediate family, receives an improper personal benefit as a result of his or her position as a Director of ABG. 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 ABG, or which may disrupt or impair ABG’s standing with any person or entity with whom or which ABG has to proposes to enter into a business or contractual relationship.
2 Acceptance of compensation (in any form) for services performed in relation to ABG from any source other than from ABG.
3 Acceptance by him or her or any member of his/her family of gifts from persons or entities who or which deal with ABG where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.
4 Utilization of ABG 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 ABG, whether in written or in oral form. Directors are under a continues obligation to maintain the confidentiality of information entrusted directly to them by ABG and any other confidential information about ABG which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures mandated by 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 ABG, 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 2010 US$ '000	*31 December 2009 US$ '000*
Directors remuneration	**750**	600
Executive Management		
Salary and other remuneration, including meeting allowance	**2,997**	2,820
Fees	**83**	76
Bonuses	**1,383**	1,218
Benefits-in-kind	**396**	359
	4,859	4,473
Shari'a Committee Members fee and remuneration	**206**	216
	5,815	5,289

Audit 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)

Audit Committee (continued)
The Board of Directors has delegated to the Audit Committee the responsibility for ensuring that there is in place an effective system of accounting and financial control. The Committee achieves this through regular review of the adequacy and effectiveness of the internal control procedures. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, regulatory compliance and risk management. It also considers the annual audit plans, monitors the independence of the external auditors and their remuneration and makes recommendations to the Board regarding the appointment and retirement of the external auditors.

The various internal and financial controls and processes are subject to independent review by the Group's Internal Audit Department and external auditors and regulators as appropriate. The reports of all these review bodies are forwarded to the Audit 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 the conclusions they have reached, respectively.

The Committee reviews the Group's annual and interim consolidated financial statements, the adequacy of loss provisions and reports by external consultants on specific investigative or advisory engagements.

Risk Committee
The Risk Committee is chaired by Mr. Abdul Elah Sabbahi. Other members are Mr. Jamal Bin Ghalaita, Mr. Samer Mohammed Adnan Farhoud, 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.

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 2010, 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.

5 CORPORATE GOVERNANCE (continued)

Executive Management (continued)

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 balance sheet 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.

Head Office Insiders Committee
The Insiders Committee has been formed in accordance with the guidelines issued by the CBB and the Bahrain Stock Exchange. 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 inside 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.

5 CORPORATE GOVERNANCE (continued)

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;
- 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; and
- 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 Stock Exchange (BSE) and NASDAQ Dubai, the Group is committed to adhere to all the periodic information dissemination required by BSE and NASDAQ Dubai as stipulated in their directives/rulebooks in this respect at a timely basis.

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.

5 CORPORATE GOVERNANCE (continued)

The Group Disclosure Policy (continued)

As a listed company, the Group follows strict policy of who should make press releases or announce to the public information, financial or non-financial, 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, BSE, 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 at least in one of the local newspapers either in Arabic or 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 CBB.

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.

5 CORPORATE GOVERNANCE (continued)

Compliance (continued)

Regulation(continued)
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 Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). These are consolidated quarterly 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.

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.

5 CORPORATE GOVERNANCE (continued)

Compliance (continued)

Information Technology (continued)
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 principles.

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.

6 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES

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

Table – 21. Unrestricted Investment Account (PD-1.3.33 (a), (b), (c), (d) & (g))

The following table summarises the breakdown of unrestricted investment accounts (URIA) and the analysis of profit equalisation reserve, investment risk reserve and return on URIA as of:

	31 December 2010 US$ '000	*31 December 2009 US$ '000*
URIA - Banks	**882,505**	683,285
URIA - Non-banks	**9,258,476**	7,468,094
Profit equalisation reserve (PER) - Banks	**232**	193
Profit equalisation reserve (PER) - Non-banks	**2,435**	2,111
Investment risk reserve (IRR) - Banks	**7,571**	5,456
Investment risk reserve (IRR) - Non-banks	**79,433**	59,770
Cumulative changes in fair value attributable to URIA	**9,454**	19,715
	10,240,106	8,238,624

6 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES (continued)

Return on average URIA

	2010	*2009*
	%	%
Return on average URIA Equity	5.5	6.6
Return on average URIA Assets	8.1	9.5

Ratio by type of URIA

	31 December 2010	*31 December 2009*
	%	%
URIA - Banks	**9**	8
URIA - Non-banks	**91**	92

The appropriation percentage of URIA 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 - 22. Unrestricted Investment Account by Islamic financing product type (PD-1.3.33 (h))

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

	31 December 2010	*31 December 2009*
	%	*%*
Receivables	**80**	86
Mudaraba and Musharaka financing	**16**	10
Ijarah Muntahia Bittamleek	**4**	4

Table - 23. Unrestricted Investment Account 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 2010	*31 December 2009*
	%	*%*
Sovereign	**2**	-
Bank	**8**	5
Investment Firms	**3**	2
Corporates	**22**	64
Retail	**65**	29

Unrestricted Investment Account Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing unrestricted investment accounts and the URIAs' share of income is based on the terms and conditions of the related Mudarib agreements. These Mudarib 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 URIA returns are analysed at the local level.

6 UNRESTRICTED INVESTMENT ACCOUNT DISCLOSURES (continued)

Table - 24. Unrestricted Investment Account 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 2010			*31 December 2009*		
	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	**2,827,499**	**548,461**	**3,375,960**	1,488,246	352,534	1,840,780
Receivables	**4,349,289**	**529,287**	**4,878,576**	4,658,859	484,442	5,143,301
Mudaraba and Musharaka financing	**639,942**	**371,912**	**1,011,854**	431,447	173,112	604,559
Investments	**460,974**	**67,686**	**528,660**	349,975	90,219	440,194
Ijarah Muntahia Bittamleek	**228,194**	**30,789**	**258,983**	204,957	4,368	209,325
Other assets	**143,371**	**42,702**	**186,073**	229,172	(228,707)	465
	8,649,269	**1,590,837**	**10,240,106**	7,362,656	875,968	8,238,624

Table - 25. Treatment of Assets financed by Unrestricted Investment Account (PD-1.3.33 (v))

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

	31 December 2010			*31 December 2009*		
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	**14,783**	**4,435**	**532**	108,533	32,560	3,907
Claims on PSEs	**37,577**	**11,273**	**1,353**	-	-	-
Claims on MDBs	**2,091**	**627**	**75**	8,197	2,459	295
Claims on Banks	**281,675**	**84,503**	**10,140**	82,675	24,803	2,976
Claims on Corporates	**4,373,018**	**1,311,905**	**157,429**	3,469,680	1,040,904	124,908
Claims on Investment Firms	**-**	**-**	**-**	72,241	21,672	2,601
Regulatory Retail Portfolio	**679,158**	**203,747**	**24,450**	803,497	241,049	28,926
Mortgage	**392,520**	**117,756**	**14,131**	234,461	70,338	8,441
Past due facilities	**170,497**	**51,149**	**6,138**	206,677	62,003	7,440
Investment in securities	**629,825**	**188,948**	**22,674**	497,699	149,310	17,917
Holding of Real Estates	**156,606**	**46,982**	**5,638**	29,589	8,877	1,065
Other Assets	**907,099**	**272,130**	**32,656**	769,994	230,998	27,720
	7,644,849	**2,293,455**	**275,216**	6,283,243	1,884,973	226,196

7 RESTRICTED INVESTMENT ACCOUNT DISCLOSURES

Restricted investment account (RIA) 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

(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.

Table - 26. Restricted Investment Account by Islamic Financing product type (PD-1.3.33 (h))

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

	31 December 2010	*31 December 2009*
	%	*%*
Receivables	**76**	94
Mudaraba and Musharaka financing	**24**	6

Table - 27. Restricted Investment Account 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 2010	*31 December 2009*
	%	*%*
Multinational Development Banks	**5**	-
Bank	**31**	19
Corporates	**19**	29
Retail	**45**	52

Restricted Investment Account Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing unrestricted investment accounts and the RIAs' share of income is based on the terms and conditions of the related mudarib agreements. These mudarib 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 RIA returns are analysed at the local level.