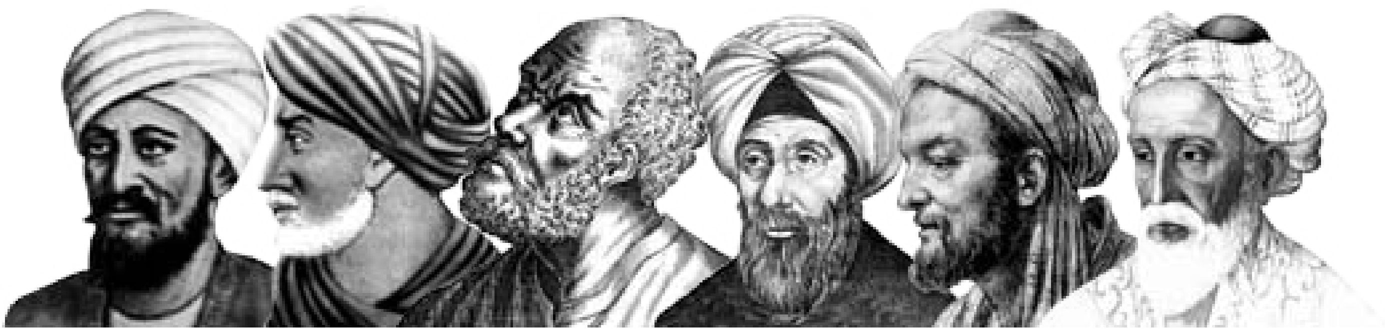
al Baraka

Annual Report **2012**



Pioneering Beyond Banking

Your Partner Bank

CONTENTS (Click text below to open page link)

"Al Baraka Banking Group's philosophy, in essence, is that Allah, The Almighty, grants mankind the power to inherit the land on this earth. As such Man is not the owner of wealth but he is responsible for it.

The purpose of Man, by the commandment of Allah, The Almighty, is to construct, embellish, create and build on this earth. Man is therefore also ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah, The Almighty.

Therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth."

Shaikh Saleh Abdullah Kamel
Chairman of Board of Directors, Al Baraka Banking Group

Design of ABG's new Headquarters building in Bahrain

Meaning of Al Baraka

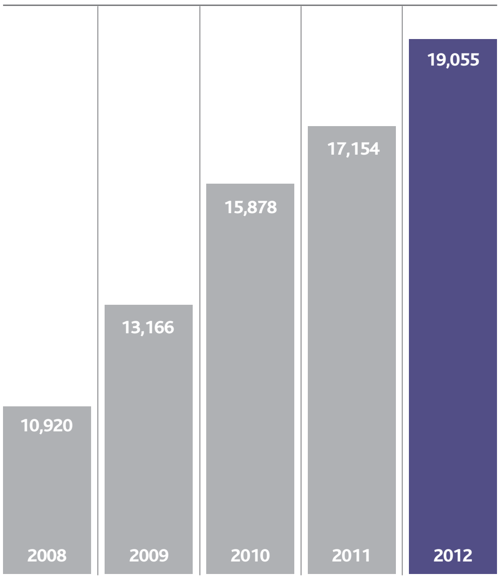
Baraka (blessing) represents fertility, growth and affluence. Baraka is the unseen growth of things; it comes from Allah as a gift or bestowment. If Allah has blessed the wealth, it will grow, prosper and flourish. The owner of that wealth will be blessed to use it for the good of himself, his family, and the wider society.

FINANCIAL HIGHLIGHTS

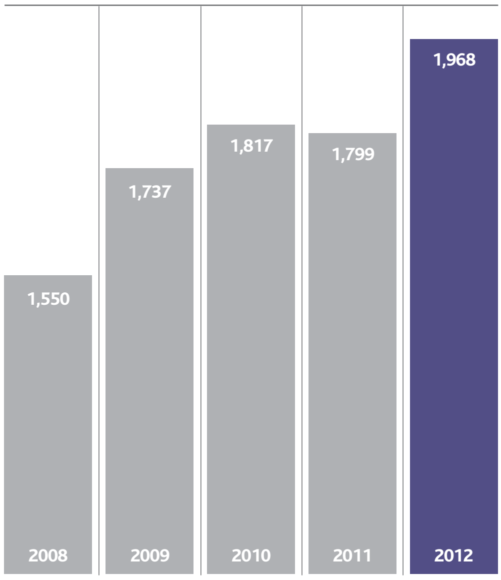
	2012	2011	2010	2009	2008
EARNINGS (US$ Millions)					
Total Operating Income	**880**	730	659	634	586
Net Operating Income	**422**	344	316	325	314
Net Income	**235**	212	193	167	201
Net Income attributable to Equity holders of the Parent	**133**	118	106	92	114
Basic and Diluted Earnings per Share - US Cents*	**13**	12	11	9	11
FINANCIAL POSITION (US$ Millions)					
Total Assets	**19,055**	17,154	15,878	13,166	10,920
Total Financing and Investments	**14,319**	11,818	11,391	9,431	8,088
Total Customer Deposits	**16,398**	14,680	13,571	10,999	8,872
Total Owners' Equity	**1,968**	1,799	1,817	1,737	1,550
Equity Attributable to Parent's Shareholders	**1,294**	1,203	1,224	1,214	1,131
CAPITAL (US$ Millions)					
Authorised	**1,500**	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	**1,014.5**	869.6	790.5	744	697.5
PROFITABILITY RATIOS					
Return on Average Owners' Equity	**13%**	12%	11%	10%	13%
Return on Average Parent's Shareholders' Equity	**11%**	10%	9%	8%	10%
Return on Average Assets	**1.3%**	1.3%	1.3%	1.4%	1.9%
Operating Expenses to Operating Income	**52%**	53%	52%	49%	46%
FINANCIAL POSITION RATIOS					
Owners' Equity to Total Assets	**10%**	11%	11%	13%	14%
Total Financing and Investment as a Multiple of Equity (times)	**7.3**	6.6	6.3	5.4	5.2
Liquid Assets to Total Assets	**25%**	33%	33%	34%	29%
Net Book Value per Share (US$)*	**1.29**	1.20	1.22	1.20	1.11
OTHER INFORMATION					
Total Number of Employees	**9,398**	9,021	8,503	7,250	6,746
Total Number of Branches	**425**	399	370	289	283

* *Adjusted for treasury and bonus shares.*

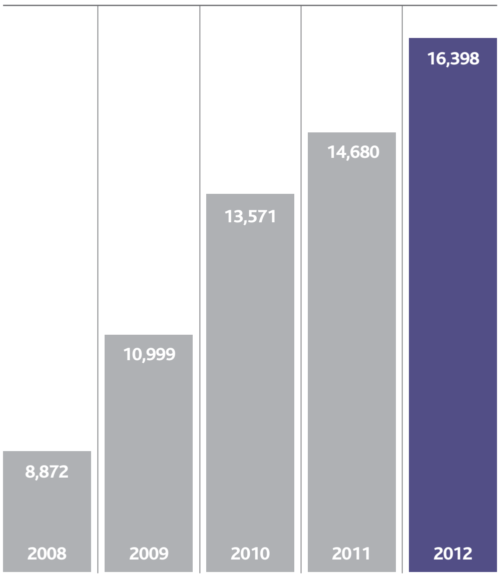
TOTAL ASSETS
US$ MILLIONS



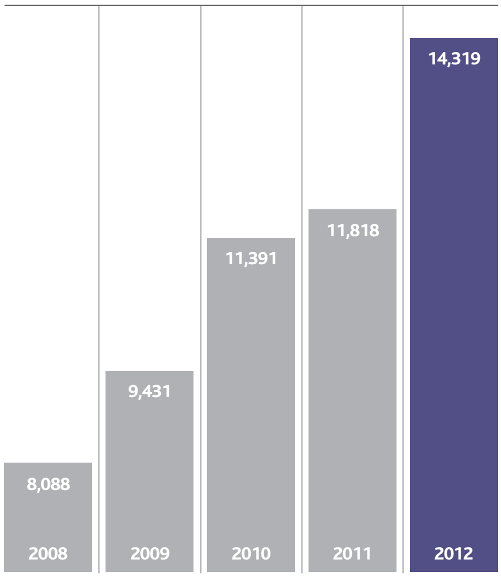
TOTAL OWNERS' EQUITY
US$ MILLIONS



TOTAL CUSTOMER DEPOSITS
US$ MILLIONS

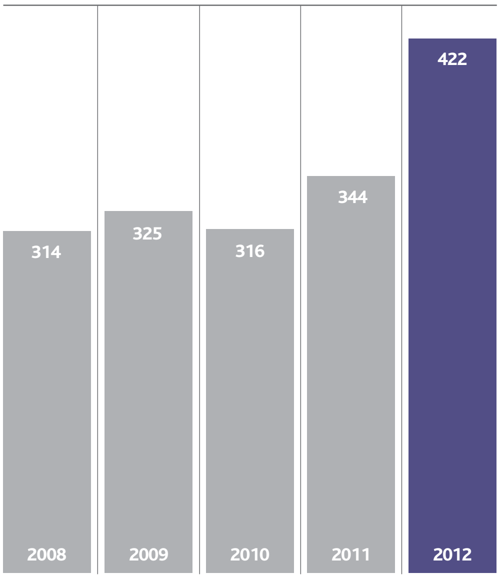


TOTAL FINANCING & INVESTMENTS
US$ MILLIONS

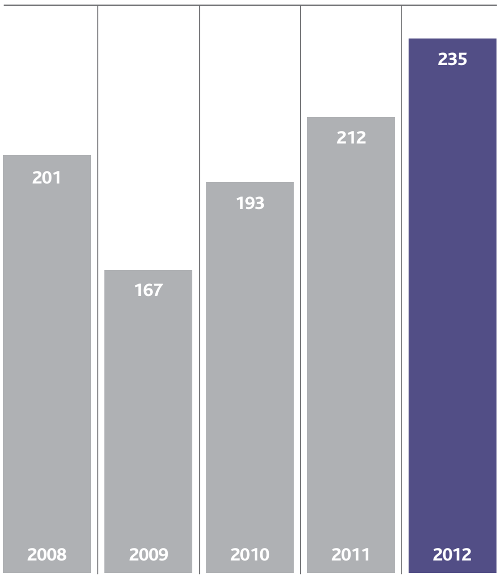


FINANCIAL HIGHLIGHTS
(CONTINUED)

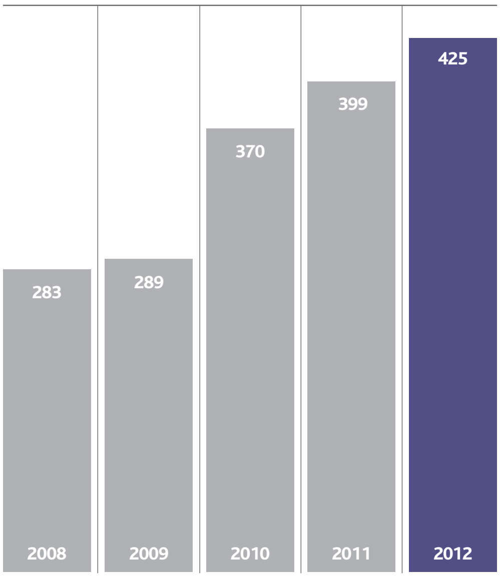
NET OPERATING INCOME
US$ MILLIONS



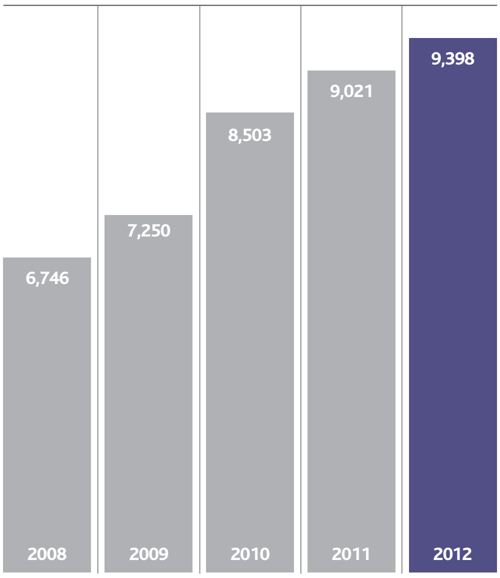
NET INCOME
US$ MILLIONS

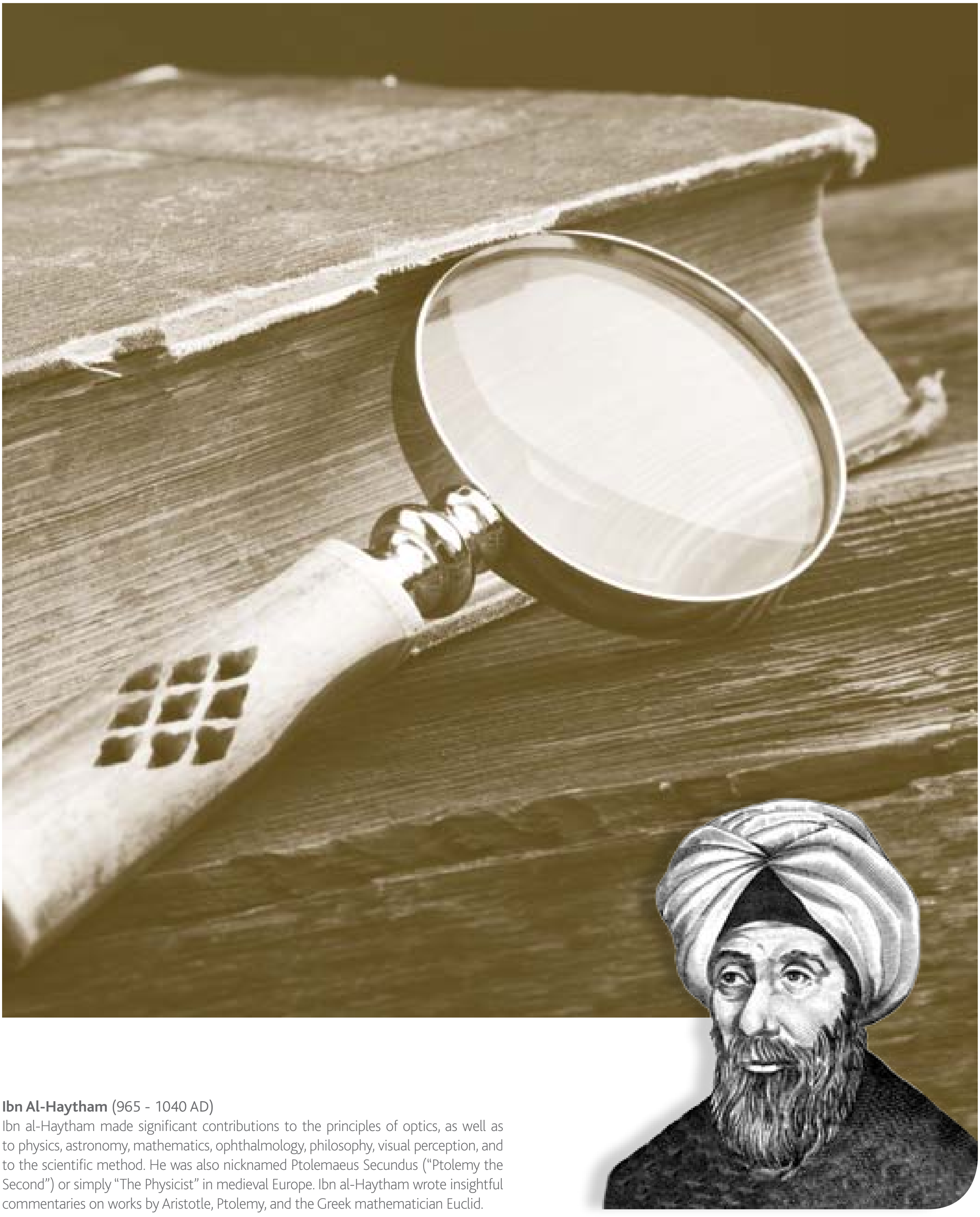


TOTAL NUMBER OF BRANCHES



TOTAL NUMBER OF EMPLOYEES





Ibn Al-Haytham (965 - 1040 AD)
Ibn al-Haytham made significant contributions to the principles of optics, as well as to physics, astronomy, mathematics, ophthalmology, philosophy, visual perception, and to the scientific method. He was also nicknamed Ptolemaeus Secundus ("Ptolemy the Second") or simply "The Physicist" in medieval Europe. Ibn al-Haytham wrote insightful commentaries on works by Aristotle, Ptolemy, and the Greek mathematician Euclid.

UNIFIED CORPORATE IDENTITY
ONE VISION - ONE IDENTITY - ONE GROUP

Early in 2009, Al Baraka Banking Group commenced the methodical rollout of its new Unified Corporate Identity to all parts of the Group, the launch of which was well received by the markets. While propelling the Al Baraka brand to the forefront of Islamic banking, and emphasising the Group's commitment to becoming the natural global leader in Islamic banking, the new corporate identity is also a strong symbol of the uniting of all subsidiaries under a single banner. Today the Al Baraka Group stands apart as an institution, with its own unique and unified philosophy, regulations, procedures and corporate culture in place. The Unified Corporate Identity is not merely a cosmetic change to the logo, its aesthetics or consistency of colour, but goes far beyond that. It is nothing less than an attempt to link the philosophical dimension upon which Islamic banking is based - participation and partnership and the equitable sharing of risk and reward through the projection of a unified and modern identity. We see this re-launch of our brand as the first step on a journey, as we work towards the creation of a unified banking group whose many subsidiaries are focused jointly on a single unifying vision.

The unified identity has helped the Group to prioritise its values and ambitions, raising them above the mere attainment of corporate size or product range and delivery. Instead, we believe that as we build our customer relationship based on the spirit of true partnership, our growth will be both inevitable and natural.

We at Al Baraka believe that banking has, or ought to have, a crucial role to play in society, one in which as bankers we have an incredible responsibility of stewardship for the resources placed in our hands. To meet this responsibility and use these resources wisely, we rely on Shari'a principles to guide us as we participate in our customers' successes, sharing in the social development of families, businesses and society at large.

By 'partnership', therefore, we mean that our success and that of each of our customers are as intertwined as our jointly held beliefs. Taking part in the joint effort is therefore our reward. We view money as a means to capitalise on opportunities and create a better society for all. Money becomes the conduit by which we enter into new opportunities together and take part in common effort for mutual reward; as steward of the resources entrusted to us, our efforts contribute to building the community, both at home and in the wider world. We call this concept: "Beyond Banking."

Our Vision

"We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community"

Our Mission

"To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success"

OUR VALUES

Partnership
Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

Driven
We have the energy and perseverance it will take to make an impact in our customers' lives and for the greater good of society.

Neighbourly
We value and respect the communities we serve. Our doors are always open; our customers always experience a warm-hearted, hospitable welcome and accommodating service.

Peace of mind
Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards.

Social contribution
By banking with us our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.

Our basic strengths, which go back to the earliest days of our foundation over 30 years ago, and on which we have depended for moral sustenance throughout that time, may be summarised as:

- Adherence to Shari'a principles
- Close customer relationships - a partnership of equals
- Financial probity
- A local bank first and foremost - but with international reach

The future of our brand
Al Baraka with its presence in 15 countries, can claim to have a wide geographical spread extending from Indonesia to Algeria, servicing its customers through a network of 425 branches. Our greatest strength is the enviable bond we have with our customers. Today we have a Unified Corporate Identity that reflects the core values and the intrinsic strengths of the organisation. We are continuously building our capacities and strengthening our resources to provide a fair and equitable financial system, not only in the countries we operate in, but also as we reach out to other parts of the world. Our promise *"Your Partner Bank"* is aimed at rewarding efforts and contributing to the development of society, thus making Al Baraka the brand of choice for financial services, internationally.

BOARD OF DIRECTORS & SHARI'A SUPERVISORY BOARD

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Abdullah Saleh Kamel
Vice Chairman

Mr. Saleh Al Yousef
Board Member

Mr. Adnan Ahmed Yousif
Board Member and President & Chief Executive

Dr. Anwar Ibrahim
Board Member

Mr. Abdul Elah Sabbahi
Board Member

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Jamal Bin Ghalaita
Board Member

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Dr. Bassem Awadallah
Board Member

Mr. Mohyedin Saleh Kamel
Board Member

Mr. Fahad Abdullah A. Al-Rajhi
Board Member

Mr. Salah Abuzaid
Secretary to the Board

SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Sattar Abu Ghudah
Chairman

Shaikh Abdulla Bin Sulieman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

Dr. Eltigani El Tayeb Mohammed
Secretary to the Shari'a Supervisory Board

INDEPENDENT DIRECTORS

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Saleh Al Yousef
Board Member

Dr. Anwar Ibrahim
Board Member

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Jamal Bin Ghalaita
Board Member

Dr. Bassem Awadallah
Board Member

BOARD COMMITTEES

BOARD EXECUTIVE COMMITTEE

Mr. Abdullah Saleh Kamel
Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Abdul Elah Sabbahi
Member

Mr. Yousef Ali Fadil Bin Fadil
Member

BOARD AFFAIRS AND REMUNERATION COMMITTEE

Mr. Ebrahim Fayez Al Shamsi *
Chairman

Mr. Jamal Bin Ghalaita *
Member

Mr. Yousef Ali Fadil Bin Fadil
Member

BOARD AUDIT AND GOVERNANCE COMMITTEE

Mr. Saleh Al Yousef *
Chairman

Dr. Anwar Ibrahim *
Member

Mr. Ebrahim Fayez Al Shamsi *
Member

Dr. Bassem Awadallah *
Member

BOARD RISK COMMITTEE

Mr. Abdul Elah Sabbahi
Chairman

Mr. Jamal Bin Ghalaita *
Member

Mr. Mohyedin Saleh Kamel
Member

Mr. Fahad Abdullah A. Al-Rajhi
Member

BOARD SOCIAL RESPONSIBILITY COMMITTEE

Dr. Bassem Awadallah *
Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Yousif Ali Fadil Bin Fadil
Member

Mr. Fahad Abdullah A. Al-Rajhi
Member

* Independent Director

Return to Contents

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Shaikh Saleh Abdullah Kamel, a Saudi Arabian national, is a well-known and highly respected international businessman and a pioneer of Islamic banking, with a lifetime of experience spanning more than 50 years. Shaikh Saleh holds a Bachelor of Commerce degree. He is the founder of Dallah Al Baraka Group and the founder of the Al Baraka Banking Group. He serves as a director on the boards of a number of organisations and associations across the world. Currently he is Chairman of the following organisations: General Council for Islamic Banks and Financial Institutions; Jeddah Chamber of Commerce & Industry, the Islamic Chamber of Commerce and Industry and Dallah Al Baraka Holding Company E.C. As a renowned pioneer of Islamic banking and in recognition of his achievements and his role in promulgating Islamic economic principles – encapsulated in the message of his group: "Reconstruction of the Earth" - Shaikh Saleh Kamel has been awarded the highest of certificates, trophies, and accolades by many countries and organisations over his lifetime.

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Saudi, a Libyan national, is a world-renowned and respected international banker with over 50 years' experience. He holds a Certificate in Management and Accounting. He worked at the Central Bank of Libya for 14 years, holding various positions including that of Manager of the Banking Department and Head of the Foreign Investment Department. He was the founder of Libyan Arab Foreign Bank, where he served as Executive Chairman between 1972 and 1980, establishing branches of the Bank worldwide. He was the founder of Arab Banking Corporation (B.S.C.), Bahrain and served as its President & Chief Executive from 1980 to 1994. He also founded Arab Financial Services (E.C.), Bahrain in 1982 and ABC Islamic Bank (E.C.) in the early 1980s. Mr. Saudi received an award from Georgetown University in Washington D.C. as a result of being voted one of the "Most Innovative Bankers" by the representatives of governments and international commercial bankers attending the International Monetary Fund and World Bank meetings in 1980. In 1991 he was awarded the accolade "Best Banker" by the Association of Arab American Banks in New York. He was the first to receive the "Arab Banker of the Year" award, in 1993, from the Union of Arab Banks. In recognition of his role in the development of banking relationships between Arab and European states, Mr. Saudi has been honoured, over his career, with several gold medals and awards, notable amongst which are those bestowed in 1977 by the King of Spain and the President of Italy and the Grand Medal of the Republic of Tunisia in 1993. He is currently the Executive Chairman of ASA Consultants W.L.L., Bahrain and Chairman of United Bank for Commerce and Investments, Tripoli, Libya.

Mr. Abdulla Saleh Kamel
Vice Chairman

Mr. Abdulla Kamel, a Saudi Arabian national, studied Economics at the University of California at Los Angeles, USA. Mr. Abdulla Kamel has held a number of executive positions at Dallah Group over the years and has acquired over 24 years' experience in various fields. He headed the real estate and property management and central logistics division during the period 1988-1989, was President's Assistant for Trade Affairs 1989-1995 and worked as Vice President for Business Sector over the period 1995-1999. Mr. Abdulla Kamel is currently the President and CEO of Dallah Albaraka Group as well as: Chairman of Aseer Company, Chairman of Amlak Real Estate Development and Finance, Vice-Chairman of Bank Al-Jazira, Vice Chairman of Eimar King Abdullah Economic City, and Board Member of Okaz Corporation for Journalism and Publishing. Mr. Abdulla Kamel has been and remains very active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (two times as Board Member), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum.

Mr. Saleh Al Yousef
Board Member

Mr. Al Yousef, a Kuwaiti national, holds a Bachelor's Degree in Commerce from Kuwait University. Mr. Al Yousef is a Kuwaiti businessman with over 30 years' experience in the banking industry. He served as Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. from 1988 to 2005. Prior to that, Mr. Al Yousef held a number of executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He is a past Chairman of ABC Islamic Bank (E.C.), Bahrain and Chairman of the Supervisory Board of Arab Banking Corporation – Daus & Co. Gmbh, Frankfurt. He served as a Director of the Financial Securities Group during 1986. He has also served on the boards of a large number of other financial institutions, including Gulf Bank K.S.C., Kuwait, Arab Banking Corporation (B.S.C.), Bahrain and Ahli United Bank B.S.C., London. He was Chairman and Managing Director of Afkar Holding Co. until September 2010 and a Director of Gulf Investment Corporation until April 2010. He is currently a Board Member of Al Baraka Bank Lebanon.

Return to Contents

BOARD OF DIRECTORS
(CONTINUED)

Mr. Adnan Ahmed Yousif
Board Member and President & Chief Executive

Mr. Yousif, a Bahraini national, holds a Master of Business Administration degree, University of Hull, UK. Mr. Yousif has been a Director of Al Baraka Banking Group since its inception and President & Chief Executive since August 2004. He is also Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank Lebanon, Al Baraka Bank Syria, Al Baraka Bank Sudan and Al Baraka Bank (Pakistan) Ltd., whilst holding directorships in Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia. He has over 37 years' experience in international banking, including involvement with numerous financial institutions and social organisations and has twice been the recipient of the "Islamic Banker of the Year" Award at the World Islamic Banking Conference, in December 2004 and December 2009. He was appointed Chairman of the Union of Arab Banks in April 2007 and re-elected for a further three-year term in April 2010. He was honoured with the Tatweej Award for excellence in leadership and institutional performance in the category "Wise Leadership in the field of Arab banking for 2012" granted by the Arab Administrative Development Organization (ARADO) - an organisation affiliated to the Arab League - in cooperation with the Tatweej Academy. In addition, he was awarded by LARIBA American Finance House the 2012 "LARIBA Award for Excellence in Achievement", in recognition of his leadership role in consolidating and operating the largest Islamic Banking System in the world.

Dr. Anwar Ibrahim
Board Member

Dr. Ibrahim, a Malaysian national, is a well-known and respected international figure. He resides in Malaysia, where he is currently the Leader of Opposition in the Malaysian Parliament. Since first taking up political office he has had 29 years' experience in politics and business. He has served his country in many ministerial capacities including those of Education Minister, Finance Minister and Deputy Prime Minister of Malaysia. He was formerly a visiting professor at Georgetown University in Washington D.C., USA and was appointed Honorary President of the London-based organization Accountability (Institute of Social and Ethical Accountability). Dr. Ibrahim has also held lecturing positions at the Johns Hopkins School of Advanced International Studies and St. Antony's College at Oxford University, UK. He has been an Independent Director of Al Baraka Banking Group since March 2006.

Mr. Abdul Elah Sabbahi
Board Member

Mr. Sabbahi, a Saudi Arabian national, holds a Bachelor of Science degree in Accounting from the Faculty of Economics & Administration, King Abdulaziz University, Saudi Arabia. Mr. Sabbahi has had over 31 years' experience in international banking, the last 21 of which with the Dallah Al Baraka Group in Saudi Arabia. He is currently Vice President, Dallah Al Baraka Group. He also holds positions as Chairman of Al Baraka Bank Tunisia, Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Al Baraka Holding Co. E.C., Bahrain, Al Amin Investment Co., Jordan, United Bank of Albania and a number of other international companies.

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree. He brings with him over 40 years' varied experience in the financial services industry and in service of the U.A.E. Government. He is a former Chief Executive Officer of Emirates Islamic Bank, Dubai and has served as a Director of Arab Fund for Economic & Social Development, Kuwait over the period 1983-2010. Mr. Al Shamsi has been a Director of Al Baraka Banking Group since August 2006 and is also a Board Member of Al Baraka Turk Participation Bank and Al Baraka Bank Syria.

Mr. Jamal Bin Ghalaita
Board Member

Mr. Ghalaita, a U.A.E. national, holds a Bachelor of Science and Business Administration degree from the University of Arizona, USA. His career as a Banker spans over 21 years with key roles in the corporate, retail, trade finance and human resources sectors at Emirates NBD Group. His significant achievements include the planning for the launch of Emirates Islamic Bank and the establishing of several new areas of business at Emirates NBD, including Private Banking, Asset Management and Emirates Money, in addition to overseeing the growth of the core Consumer Banking and Wealth Management business. He is now the Chief Executive Officer, Emirates Islamic Bank, a position he moved into in October 2011 from his previous post as Group Deputy Chief Executive Officer and General Manager, Consumer Banking and Wealth Management at Emirates NBD. He is also Chairman of Emirates Islamic Financial Brokerage LLC and Board Member of Tanfeeth LLC and SHUAA Capital PSC.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Mr. Fadil, a U.A.E. national, is an experienced banker with a Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA. He has more than 27 years' experience. During the period 1984-1998, Mr. Fadil held a number of senior positions in the National Bank of Umm Al Qaiwain. He then served Dubai Islamic Bank as Executive Manager for Investment over the period 1999-2002. In 2003 Mr. Fadil was appointed General Manager of the Emirates Financial Company. Mr. Fadil has also served as member of the board of directors of several financial institutions including, amongst others, Union Insurance Company, U.A.E., Bahrain Islamic Bank and Bosnia International Bank. He is a Board Member of Al Baraka Islamic Bank, Bahrain, Ajman Bank, Dubai Islamic Insurance Company and Gulfa Mineral Water.

BOARD OF DIRECTORS
(CONTINUED)

Dr. Bassem Awadallah
Board Member

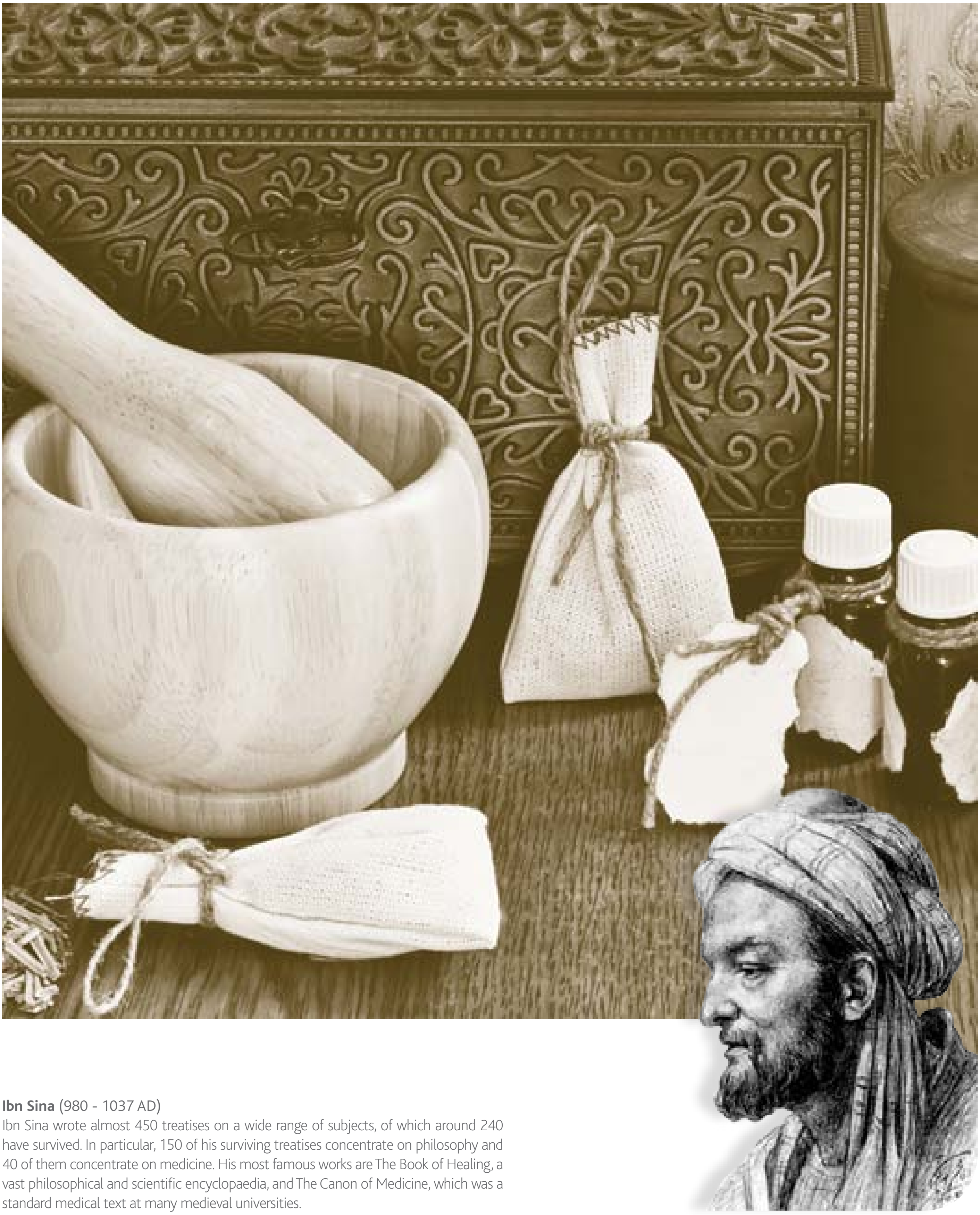
Dr. Awadallah, a Jordanian national, earned an M.Sc. degree and a Ph.D. in Economics from the London School of Economics and Political Science, UK in 1985 and 1988 and a Bachelor of Science in Foreign Service degree from Georgetown University, Washington D.C., USA in 1984. He has over 26 years' experience in a variety of fields. Dr. Awadallah worked in the investment banking field in the United Kingdom from 1986 to 1991. He then held a succession of positions in Jordan: as Economic Secretary to the Prime Minister (1992-1996); Economic Advisor to the Prime Minister (1996-1999); Director of the Economic Department at the Royal Hashemite Court (1999-2001); Minister of Planning and International Cooperation (October 2001-February 2005); Minister of Finance (April 2005-June 2005); Director of the Office of His Majesty King Abdullah II of Jordan (April 2006-November 2007) and as Chief of the Royal Hashemite Court (November 2007-September 2008). Dr. Awadallah was chosen as a Lee Kuan Yew Fellow in Singapore in 2004 and a Young Global Leader by the World Economic Forum in 2005, and is the recipient of the Al Hussein Medal for Distinguished Service of the Hashemite Kingdom of Jordan, the Al Kawkab Decoration of the First Order of the Hashemite Kingdom of Jordan and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan. In addition he has been awarded a number of high decorations from several countries in Europe and Asia. Dr. Awadallah is currently the Chief Executive Officer of Tomoh Advisory, a financial and strategic advisory practice based in Dubai, UAE.

Mr. Mohyedin Saleh Kamel
Board Member

Mr. Mohyedin Kamel, a Saudi Arabian national, studied economics at the University of San Francisco, USA. He is a prominent Saudi businessman with many years' experience, currently serving as Deputy Chief Executive Officer of Dallah Al Baraka Holding Company and Deputy Chief Executive Officer for Projects at Arab Media Company. Mr. Mohyedin Kamel has also served on the boards of many other companies and institutions, including as Chairman of the Board of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd., and member of the Board of Directors of, respectively, Dallah Real Estate Consulting Company – Egypt, Almaza Real Estate Development Company – Egypt, Arab Company for Real Estate and Tourism Investment – Egypt, Arab Radio and Television Network (ART) and Sports Events International Company, where he was Managing Director. He has also served as a member of the Management Committees of Dallah Al Baraka Holding Co., Jabal Omar Development Company, Halawani Brothers, Al Khozami Company, Saudi Research and Marketing Group, Dallah Health Co., Saudi Fund Equestrian and Okaz Organization for Press and Publication. Mr. Mohyedin Kamel is active in the field of public and community work in Saudi Arabia and was a member of the Board of Directors of Jeddah Chamber of Commerce and Industry in the past.

Mr. Fahad Abdullah A. Al-Rajhi
Board Member

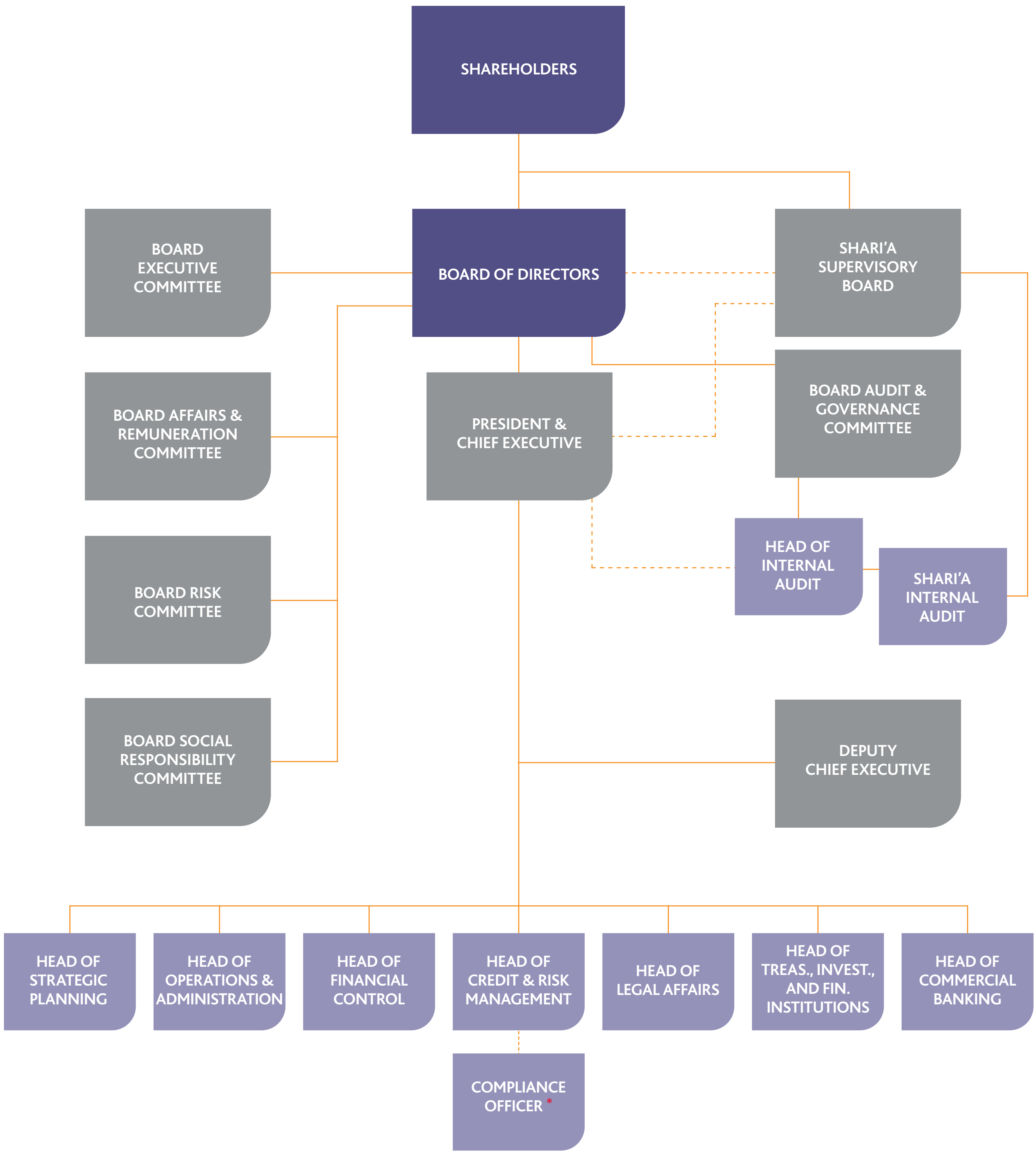
Mr. Al-Rajhi, a Saudi Arabian national, was appointed a Member of the Board of Directors of Al Baraka Banking Group in March 2011 and a Member of the Board of Directors of Al Baraka Turk Participation Bank. He has over 34 years' experience in a variety of business and financial fields. He holds a Bachelor of Science degree in Industrial Management (1978) from King Fahad University of Petroleum and Minerals, Saudi Arabia. Mr. Al-Rajhi is the Chairman of FAR Venture Holding Company, a position he has held since 2008, and a Member of the Board of Deutsche Gulf Finance. Earlier, he was a treasurer in Al-Rajhi Bank between February 1995 and May 2008. He is also currently serving as Board Member of Resort Cement Co., Najran Cement Co. and Bukhait Investments Group.



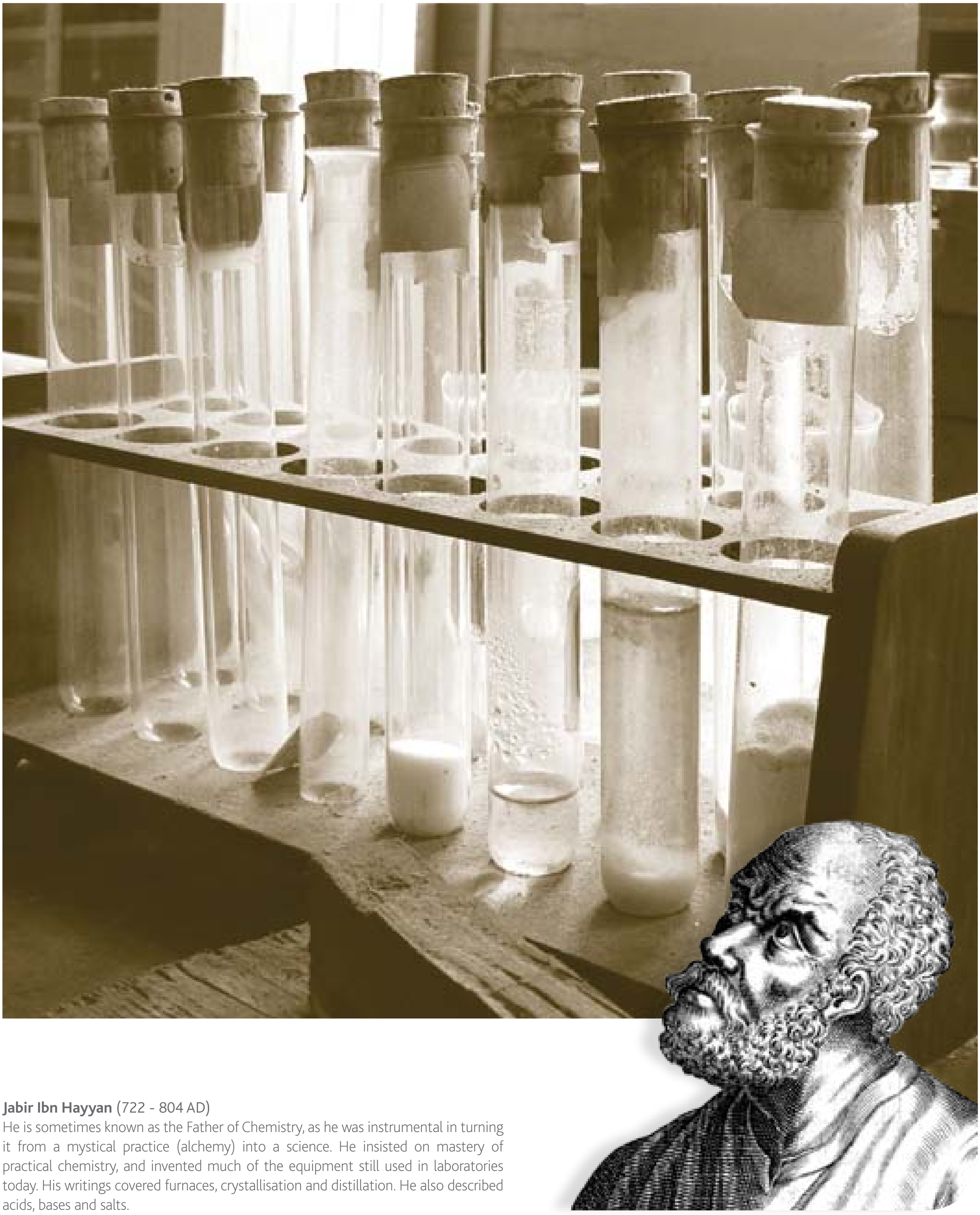
Ibn Sina (980 - 1037 AD)

Ibn Sina wrote almost 450 treatises on a wide range of subjects, of which around 240 have survived. In particular, 150 of his surviving treatises concentrate on philosophy and 40 of them concentrate on medicine. His most famous works are The Book of Healing, a vast philosophical and scientific encyclopaedia, and The Canon of Medicine, which was a standard medical text at many medieval universities.

HEAD OFFICE ORGANISATION CHART



* *Direct reporting relationship to the President & Chief Executive*



Jabir Ibn Hayyan (722 - 804 AD)
He is sometimes known as the Father of Chemistry, as he was instrumental in turning it from a mystical practice (alchemy) into a science. He insisted on mastery of practical chemistry, and invented much of the equipment still used in laboratories today. His writings covered furnaces, crystallisation and distillation. He also described acids, bases and salts.

EXECUTIVE MANAGEMENT

Mr. Adnan Ahmed Yousif
President & Chief Executive

Mr. Yousif has more than 37 years' international banking experience. He has been a Director of ABG since inception and the President & Chief Executive since August 2004. He is the Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank Lebanon, Al Baraka Bank Syria, Al Baraka Bank Sudan and Al Baraka Bank (Pakistan) Ltd. He also holds directorships in Al Baraka Islamic Bank, Bahrain and Al Baraka Bank Tunisia.

Mr. Yousif holds a Master in Business Administration degree from University of Hull, UK.

Mr. Majeed H. Alawi
Executive Vice President
Head of Internal Audit

Mr. Alawi has over 32 years of international banking experience, mainly in audit. He began his career at Banque National de Paris in Bahrain in 1981 as Head of Operations, subsequently moving to Arab Banking Corporation (B.S.C.)'s Internal Audit Department in 1988 as an audit team leader, where he carried out audits of the Head Office departments and the bank's branches and subsidiaries spread over Europe, the Americas, the Far East and across the Arab World. He joined ABG in 2000, when it was still under formation, to establish and head the internal audit department, which is responsible for reviewing the activities of all ABG's subsidiary banks as well as of the Group's Head Office in Bahrain. The audit function also includes the review of controls over the IT system, as well as controls to ensure Shari'a compliance. Mr. Alawi reports directly to the Audit and Governance Committee of the Board of ABG, for whom he also acts as Secretary. He also participates as an observer member in the meetings of the Audit Committees of all ABG's subsidiaries.

Mr. Alawi is an FCCA – Fellow of the Chartered Association of Certified Accountants from UK (1980).

Mr. K. Krishnamoorthy
Executive Vice President
Head of Strategic Planning

Mr. Krishnamoorthy has over 36 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. He has worked in the Middle East and in North America. After spending several years in the accountancy field in India and Bahrain, Mr. Krishnamoorthy joined the investment banking subsidiary of Arab Banking Corporation (B.S.C.), where he served for 11 years before moving to the parent bank's Treasury Department to manage its mutual fund investment portfolio and the Treasury Mid-Office. Following this he spent 2 years as a partner in a regional investment bank in the Gulf, a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, subsequently joining ABG in 2004.

Mr. Krishnamoorthy is an ACA – Associate of the Institute of Chartered Accountants of India and holds a B.Com. degree from Osmania University, India.

Mr. Abdulrahman Shehab
Executive Vice President
Head of Operations and Administration

Mr. Shehab has over 39 years of banking experience gained in senior positions with various international financial institutions, both Islamic and conventional. He commenced his career with Habib Bank Ltd. in 1973, later working at the Bahrain offices of Chase Manhattan Bank, Bank of America, American Express Bank and Bahrain Middle East Bank. After a successful career with Ithmaar Bank, (formerly Faysal Islamic Bank of Bahrain), in 2002 he was appointed Assistant Chief Executive Officer – Operations at Bahrain Islamic Bank, subsequently joining ABG in May 2006. Mr. Shehab is a Board Member of Banque Al Baraka D'Algérie and Al Baraka Bank (Pakistan) Ltd.

Mr. Shehab holds a Master of Business Administration degree from University of Hull, UK.

Return to Contents

EXECUTIVE MANAGEMENT
(CONTINUED)

Mr. Hamad Abdulla Ali Eqab
Senior Vice President
Head of Financial Control

Mr. Eqab has over 19 years' experience in financial control and auditing. Prior to joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this role, he was a member of the Audit team at Arthur Andersen. He is the Vice Chairman of the Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Board Member of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algérie. In addition he serves as Chairman of the Board Risk Committee of Banque Al Baraka D'Algérie and of the Audit Committee of Al Baraka Turk Participation Bank, in addition to being a member of each of the Audit Committees of Jordan Islamic Bank and Banque Al Baraka D'Algérie and a member of the Social Responsibility Committee of Jordan Islamic Bank.

Mr. Eqab is a qualified Certified Public Accountant (CPA) and Chartered Global Management Accountant (CGMA).

Mr. Jozsef Peter Szalay
Senior Vice President
Head of Credit and
Risk Management

Mr. Szalay has over 38 years of international banking experience encompassing credit and risk management, corporate banking and trade finance. He commenced his banking career in international banking with Bank of Montreal, Canada and was later its Middle East Representative, initially based in Beirut, Lebanon and thereafter in London. He joined Gulf International Bank B.S.C. (GIB) in 1979 as Regional Marketing and Credit Officer for Central Europe based in London. He subsequently worked in various capacities in GIB within Credit and Business Development. In 2001 he was appointed Chief Credit Officer of GIB in Bahrain, responsible for credit, economics, legal and other related areas. He was also a member of the Group Risk Committee of GIB. Mr. Szalay has been a member of ABG's Executive Management team since September 2006.

Mr. Szalay holds M.A. (Econ.) from University of Budapest, Banking Certificate from the Institute of Canadian Bankers and Advanced Management Program from INSEAD France.

Mr. Salah Othman Abuzaid
Senior Vice President
Head of Legal Affairs

Mr. Abuzaid has over 28 years of professional experience as a judge, a practicing advocate and a legal consultant at a number of local, regional and international law firms. After 20 years of legal practice in various capacities in Sudan, he moved to the Sultanate of Oman in 2001 to work for an Omani law firm associated with an International law firm, and was admitted to practice before all Omani courts by the Omani Advocates Admission Committee. In 2004, he moved to Bahrain to join Al Baraka Islamic Bank as Manager, Legal Affairs. This was followed in 2007 by a move to ABG to take up the position of First Vice President - Head of Legal Affairs & Compliance, from which position he was subsequently promoted to Senior Vice President. During this time he has continued also to serve as Secretary to ABG's Board of Directors.

Mr. Salah holds a LLB degree of the Faculty of Law of the University of Khartoum.

Mr. Khalid Al Qattan
First Vice President
Head of Treasury, Investments and Financial Institutions

Mr. Al Qattan has over 27 years of banking experience in Treasury and Operations. He commenced his banking career at United Gulf Bank, Bahrain as an Operations Clerk in 1983. In 1988, he joined Shamil Bank, Bahrain as Operations Clerk and was subsequently promoted to Manager in charge of the bank's Treasury operations. He was later appointed Treasury Manager at Eskan Bank, Bahrain and served as such between April 2006 and May 2007, where he was responsible for the overall liquidity management of the bank and also served on several management committees. In June 2007 he joined ABG as Vice President and was promoted to the position of First Vice President - Head of Treasury and Investments in 2008.

Mr. Al Qattan holds a Master of Business Administration degree from the University of Hull, UK.

DIRECTORS' REPORT

GLOBAL AND REGIONAL ECONOMIES

Despite the global growth averaging just 2.2%, in contrast the countries where ABG maintains a banking presence fared somewhat better than average, as their economies all managed to grow with the single exception of Sudan which suffered under exceptional circumstances due to the loss of the majority of its oil revenues through the secession of South Sudan. The remaining economies managed to exhibit growth, ranging from 1.5% in the case of Bahrain to 3.7% in the case of Pakistan.

Of the three largest global economies, those of the US and Japan each managed to grow, but by only 2.2% and 1.8% respectively, as each struggled to avoid slipping back into recession through various measures: quantitative easing phase three (QE3) in the case of the US and post-tsunami and earthquake reconstruction spending in the case of Japan, while the Chinese economy managed only a weak 7.8% - below that deemed necessary to sustain its expansion – the result of insufficient investment spending combined with declining exports. As for the eurozone, Greece's cataclysmic plunge into near-default, sparking the steep drop in confidence in Spain's and Italy's ability to manage their debt and budget deficits, followed by slippage into recession, resulted in an estimated -0.4% negative growth rate for the single currency area. Among other significant economies, however, only that of Britain recorded negative growth (-0.1%), while other OECD countries,

(All figures in US Dollars unless otherwise stated)

together with the remainder of the BRICS (Brazil, Russia, India, China and South Africa) remained in the black.

The immediate outlook appears to signal little change in this mixed scenario, with current forecasts of slightly lower growth for the US and Japan, improved growth for China and the other BRICS, zero growth for the eurozone countries and little or no change for most of the remaining OECD economies. Some eminent commentators have opined that this global slowdown is unlike others before it, in that the recessions in Europe and the US which heralded it were the product of an expansion of private sector credit, leading to soaring property prices, with the circle eventually broken by the banking crisis and the credit crunch. The resultant bad debts and household deleveraging that followed will take time to be absorbed, which is the reason that we face a less than speedy recovery.

Once again, however, we continue to view the future with optimism, albeit tempered with caution, as the world edges slowly but surely towards recovery. For ABG, it remains incumbent on us to stand ready to aid our customers during that period as and when needed, helping them to invest in the future and build on their successes.

2012 REVIEW

The Group's share of total income from jointly financed contracts and investments, including its share as Mudarib, was $406 million, 21% higher than in 2011. Income from self financed contracts and investments and Mudarib share from managing off-balance sheet equity of investment account holders as well was 21% higher at $209 million. Including other operating income and revenues from banking services, the Group's total operating income was $880 million, 21% higher than in 2011. Total operating expenses also rose, however by less than the rise in income, at 19% to $458 million, resulting in a net income before provisions and taxation of $422 million, compared with $344 million the year before. After allocation of prudential provisions and taxation, the net income for the year was $235 million, a rise of 11% compared with the $212 million earned in 2011.

Growth in the customer deposit base, by 12% to $16.40 billion, together with an increase in other liabilities, funded the expansion of the Group's banking assets, as Murabaha receivables and Ijarah Muntahia Bittamleek grew by 27% and 28% respectively, the Investments portfolio rose by 4%, Mudaraba and Musharaka financing remained at around 2011 levels of, together offsetting a 15% reduction in cash and balances with banks, which nevertheless closed the year at a strong $3.93 billion. The Group's total assets at the end of the year stood at $19.06 billion, an 11% increase over 2011.

Despite the challenging business environments in which many of our subsidiaries had to work during 2012, we were pleased to note that, once again, the majority of the units were able to report a positive result for the year. Indeed, of the nine units that recorded a net profit, all but two had increased their contribution over 2011, a commendable performance in the circumstances.

DIRECTORS' REPORT
(CONTINUED)

In light of the Group's performance in 2012, the Board of Directors has recommended a cash dividend distribution to the shareholders of 3.5% of the paid up capital, amounting to $35.51 million, after a transfer of $13.30 million to the legal reserve, with the remainder of the net income, amounting to $84.22 million, being allocated to retained earnings. The Board has also recommended a bonus dividend of 1 share for every 30 shares held, to be allocated from retained earnings and amounting to $33.82 million. The Board has further recommended a remuneration distribution of $1.0 million, to be paid following the approval of shareholders at the Annual General Meeting.

Ownership of shares in ABG by Board Members and Executive Management (with the exception of that of the Chairman) is not material and no major trading of such shares took place during 2012. Details of shares held by Directors and members of the Executive Management are provided in the Notes to the Consolidated Financial Statements.

LOOKING AHEAD...

Although sometimes labouring under difficult local conditions, the Group has once more delivered growth and profitability and demonstrated the soundness of its ongoing strategic objectives.

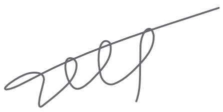
ABG's commitment to growth through geographical expansion remains firm, as demonstrated by our growing branch network and the recent acquisition of a thriving investment banking business in Saudi Arabia, providing a platform from which the Group can expand in that market. In 2013 we intend to continue with our branch expansion strategy, while at the same time maintaining our watch over other potential markets, with a view to entering them when the time is right.

We continue meanwhile to strengthen our risk management processes and procedures, maintaining and improving our asset quality, at the same time as we seek to optimise costs across the board in our search for ever greater productivity and expanding profitability.

Our subsidiaries will continue to design and introduce innovative new products and services to meet the needs of our customers and, by sharing new Shari'a compliant products with other ABG units, ensure that all our customers Groupwide benefit.

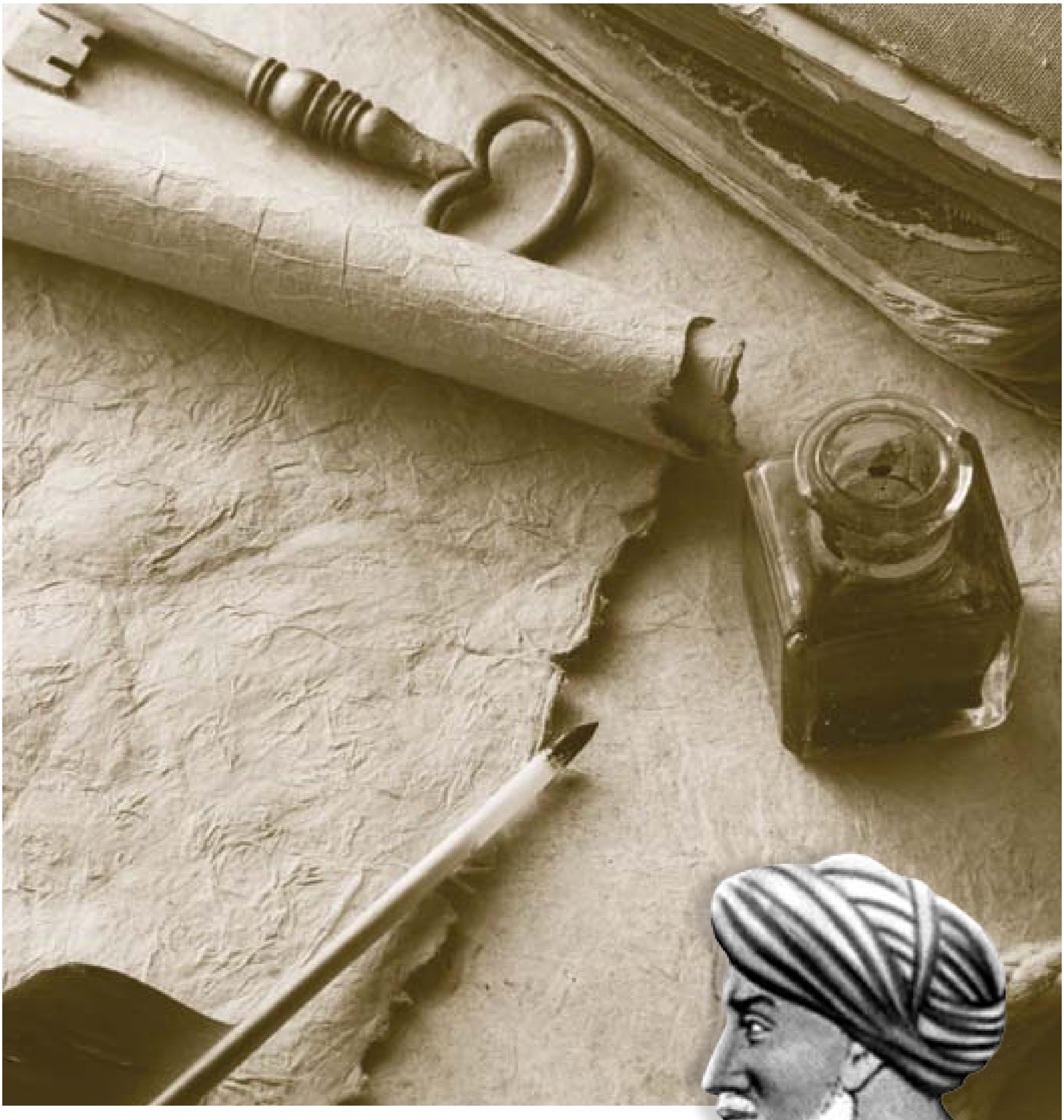
In conclusion, I should like to take this opportunity to extend, on behalf of the Board and Executive Management, our appreciation to our Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Commerce and Industry of Bahrain and all of our subsidiaries' regulatory authorities, for their support and guidance during 2012.

For and on behalf of the Board of Directors



Saleh Abdullah Kamel
Chairman

(All figures in US Dollars unless otherwise stated)



Ibn Khaldun (1332 - 1406 AD)
Ibn Khaldun was a famous Arab historiographer and historian born in present-day Tunisia, and is sometimes viewed as one of the forerunners of modern historiography, sociology and economics. He is best known for his Muqaddimah “Prolegomena”, which was discovered, evaluated and fully appreciated first by 19th century European scholarship, although it also had considerable influence on 17th-century Ottoman historians, who relied on his theories to analyze the growth and decline of the Ottoman Empire. Later in the 19th century, Western scholars recognized him as one of the greatest philosophers to come out of the Muslim world.

PRESIDENT & CHIEF EXECUTIVE'S REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

The economies of some of the countries in which ABG has a presence exhibited signs of recovery towards the later part of the year and generally the unstable conditions which had beset several countries across the MENA region in 2011 and part of 2012 on the overall showed indications of recovery and rebuilding during the past year. In spite of these conditions the Group's operations fared reasonably well, expanding cautiously in most cases. ABG's consolidated total assets grew in 2012 by 11% to $19.06 billion as total financings and investments rose by 21% to $14.32 billion. While Murabaha receivables grew by over 27%, and Ijarah Muntahia Bittamleek financings by 28%, Mudaraba and Musharaka financings rose by a little over 2011 and investments also rose by about 4%. Customer accounts, including equity of investment accountholders (IAH), likewise, showed solid growth of 12%. In a challenging year for many of our subsidiaries, this expansion was not as evenly spread as in previous years, with three of them reporting reduced total assets.

Al Baraka Türk Participation Bank (Al Baraka Turkey) saw a 25% increase in its total assets largely on the back of significant expansion in its traditional Murabaha financings, aided by advances in its Ijarah Muntahia Bittamleek business. Jordan Islamic Bank's growth was a moderate 4% overall, although its total financings and investments surged by 45%, to be offset by reductions in other assets with, again, Murabaha and Ijarah Muntahia Bittamleek being to the fore. Al Baraka Egypt, reacting to the worsening economic conditions and increased default rate in the retail banking market, decided to adopt a very cautious stance; notwithstanding its 10% asset growth over the year

(All figures in US Dollars unless otherwise stated)

as a whole - mostly in Murabaha receivables, investments and its own property and other infrastructure assets. At Banque Albaraka D'Algerie (Al Baraka Algeria) total assets increased by 5%, although this was largely due to a rise in liquid and non-banking assets, financings and investments actually falling as government restrictions on personal debt continued to impact on the bank's ability to provide financing facilities to its customers. Al Baraka Pakistan, due to the fall in local currency values, experienced a 6% asset reduction in US dollar terms. Al Baraka Islamic Bank (Al Baraka Bahrain) suffered a 16% decline in its total assets, principally due to run offs of existing financings and in light of lower business volumes prevailing during the year, affecting both Murabaha receivables and Mudaraba and Musharaka portfolios.

At Al Baraka Tunisia, assets rose by 4% in spite of a decline in its Murabaha business volume as the economy gradually regained lost ground following the events of 2011, mainly on account of an expansion in Mudaraba and Ijarah Muntahia Bittamleek activity. On the other hand, Al Baraka Syria surprised with asset growth of 84% in Syrian Pounds (28% in US dollars as the Syrian currency plunged in value under the pressure of the international sanctions imposed), but this was mostly due to a 96% rise in deposits as residents sought a safe haven for their funds and the bank wisely decided to retain most of these additional funds in liquid assets. Al Baraka South Africa saw a 9% rise in its assets, mostly through Musharaka growth, while Al Baraka Lebanon was able to expand its assets by 25% despite the proximity of the troubles in Syria and the impact of this unstable situation on Lebanon, as its financings and investments grew by a remarkable 45%, with the Murabaha portfolio exhibiting especially strong growth and Mudaraba turning in a respectable 11% advance. Lastly, Al Baraka Sudan saw a 29% reduction in total assets in US dollar terms as the Sudan Pound suffered a 50% devaluation during the year (in Sudanese Pound, however the total assets grew by a massive 58%), reflecting the sharp reduction in the economy's export revenues following the loss of the majority of its oil reserves to South Sudan.

Financings and investments, at 75%, formed the greatest part of the Group's assets, with Murabaha receivables constituting the largest (72%) proportion of financings and investments. Murabaha grew by 27% over 2011 to $10.30 billion, while the next largest category, investments, rose by 4% to $2.18 billion. Mudaraba and Musharaka together remained almost the same at 1%, $0.95 billion, while Ijarah Muntahia Bittamleek rose by 28% to $0.72 billion.

The growth in customer deposits was proportionately greatest in the smallest category, interbank deposits, which rose by 49% to $0.97 billion. Customers' current and other accounts, at $3.82 billion, grew by 7% while equity of IAH, the largest category at $11.60 billion, recorded healthy growth of 11%. Aggregate off-balance sheet IAH grew by 14% to $0.60 billion, while contingents and commitments rose by 1% to $4.75 billion. During the year the Group decreased its letter of credit and letter of guarantee business, by 7% to $4.22 billion and 12% to $2.30 billion, respectively.

Total operating income of the Group grew by 21% to $880 million. Lower growth in total operating expenses, on the other hand, at 19% to $458 million, produced a net operating income which, at $422 million, was 23% up on 2011. Following significantly higher allocations in respect of provisions and impairments (+95%) in a somewhat difficult year for some units, and taxation (+7%), the net profit was therefore $235 million, 11% higher than that for 2011.

Despite difficult operating conditions, we are pleased to report that ABG's rating by S&P was maintained at the same investment grade (BBB-) that has remained unchanged since 2007.

The Group maintained its cautious expansion strategy throughout the year, firstly, with organic expansion of its branch network which at the end of the year totalled 425 branches, compared with 399 branches at the end of 2011. In 2012, Al Baraka Islamic Bank acquired 60% of the issued shares of Al Tawfeek Financial Group, a Saudi Arabian based investment bank, subsequently changing its name to Itqan Capital, a move which is expected to provide the Group with entry to the large and promising Saudi market. As the events in Libya showed signs of improvement, we inaugurated our representative office in Libya with establishment of a fully fledged office with requisite staff, while studies are ongoing into the suitability of other markets in Africa and Asia for expansion of the Group's presence on those continents.

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

In 2012 ABG's commitment to the development of the Islamic Finance industry was once again demonstrated by its sponsorship of the 33rd Annual Islamic Economics Forum. This annual gathering performs a unique role, acting as a 'think tank' for the industry and creating a forum for:

- Spreading knowledge of Islamic jurisdictions (Fiqh) with regard to contemporary economic and financial transactions;
- Considering problems faced by Islamic banks in the application of different modes of Islamic finance and exchanging views of scholars;
- Linking Fiqh to contemporary economic issues and supporting Islamic economic theory to confront competing theories;
- Enriching banking Fiqh and the Islamic Economic Library with profound discussion resulting in the issue of new Fatwas by renowned scholars;
- Meeting the needs of those concerned with Islamic banking Fiqh worldwide;
- Fulfilling the requirements of all Al Baraka units and other Islamic financial institutions in the field of Islamic banking theory and its applications;
- Linking the financing transactions of Fiqh with the principles of economics;
- Providing scientific reference for research, Shari'a committees and Shari'a Fatwas within the framework of Islamic banking; and
- Developing Islamic financing instruments which conform to technical and Shari'a standards.

The 33rd Al Baraka Islamic Economics Forum was noteworthy for the first Al Baraka Award in Islamic Economics, awarded to Professor Mohammed Siddiq Al Dareer, in recognition of his contribution to the development of Islamic economics and finance, for his theory entitled Al Gharar (Risk).

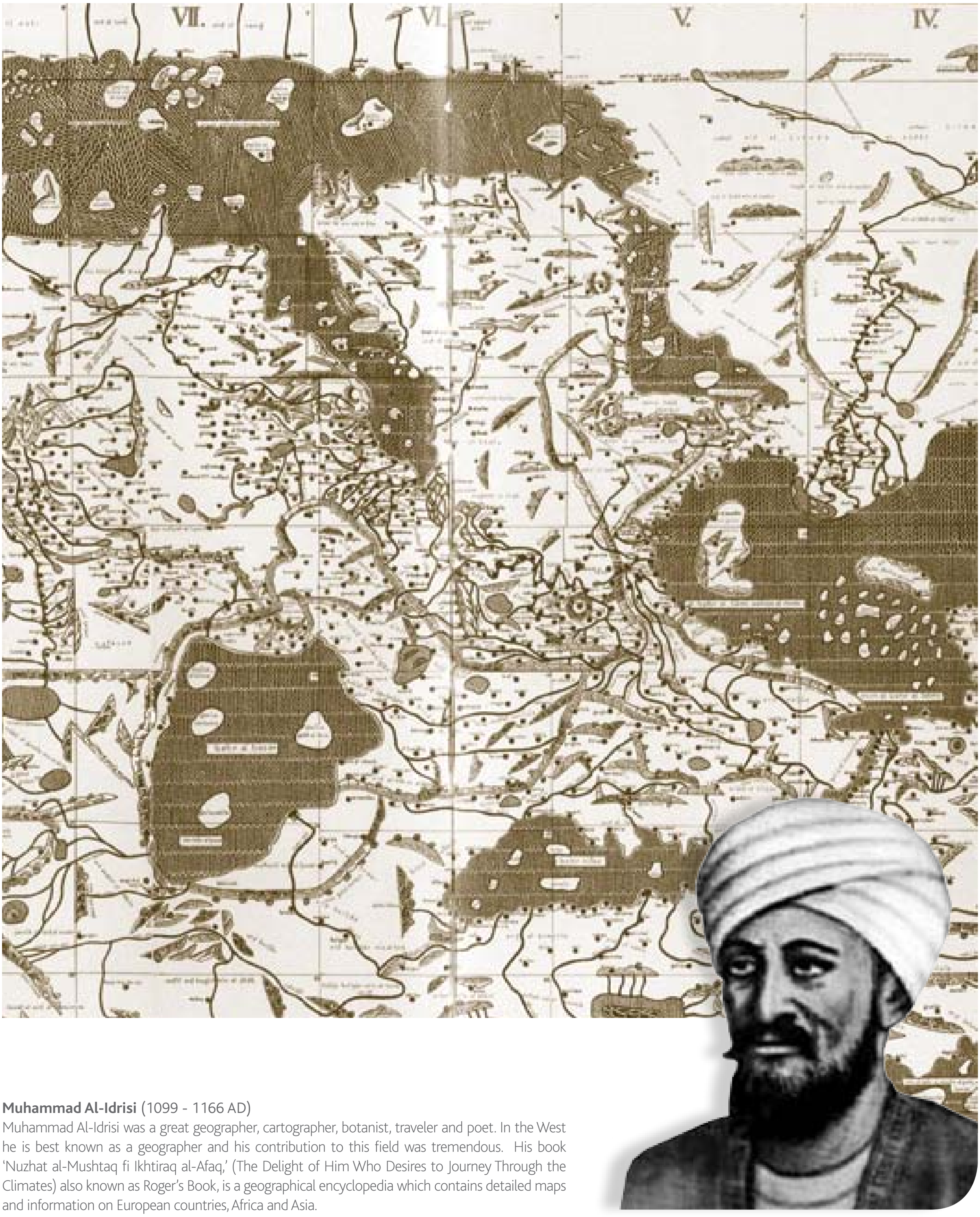
During the year we were honoured that no fewer than four of our subsidiary banks, Al Baraka Algeria, Al Baraka Jordan, Al Baraka Bahrain and Al Baraka South Africa, received the "Best Islamic Bank" accolade from Global Finance magazine, in recognition of their prominent role in the Islamic banking sectors of their respective countries and considering the quality of products and services offered and their originality and innovation in banking operations, as well as a mix of other criteria such as strategic relationships, geographic reach, profitability and robustness of financial position. I was myself personally honoured with the "2012 LARIBA Award for Excellence and Achievement", by the US finance house LARIBA. This annual award has become a tradition since it was first given in 1999 to recognise significant contributors in the field of Islamic finance and banking, which I was pleased to accept as a mark of the progress made by ABG and its subsidiaries in enhancing the image of the Islamic banking sector.

REVIEW OF UNITS

The following is a brief review of each of our subsidiaries, their activities and performance over the past year. All figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (and IFRS, where AAOIFI was silent) and without any Group level consolidation adjustments.

Each unit is managed by its respective Board of Directors, whose reporting lines are ultimately to the Parent, ABG, but whose decision-making is decentralised within the Group's overall strategic direction and in full compliance with the regulations of the respective countries' Central Banks.

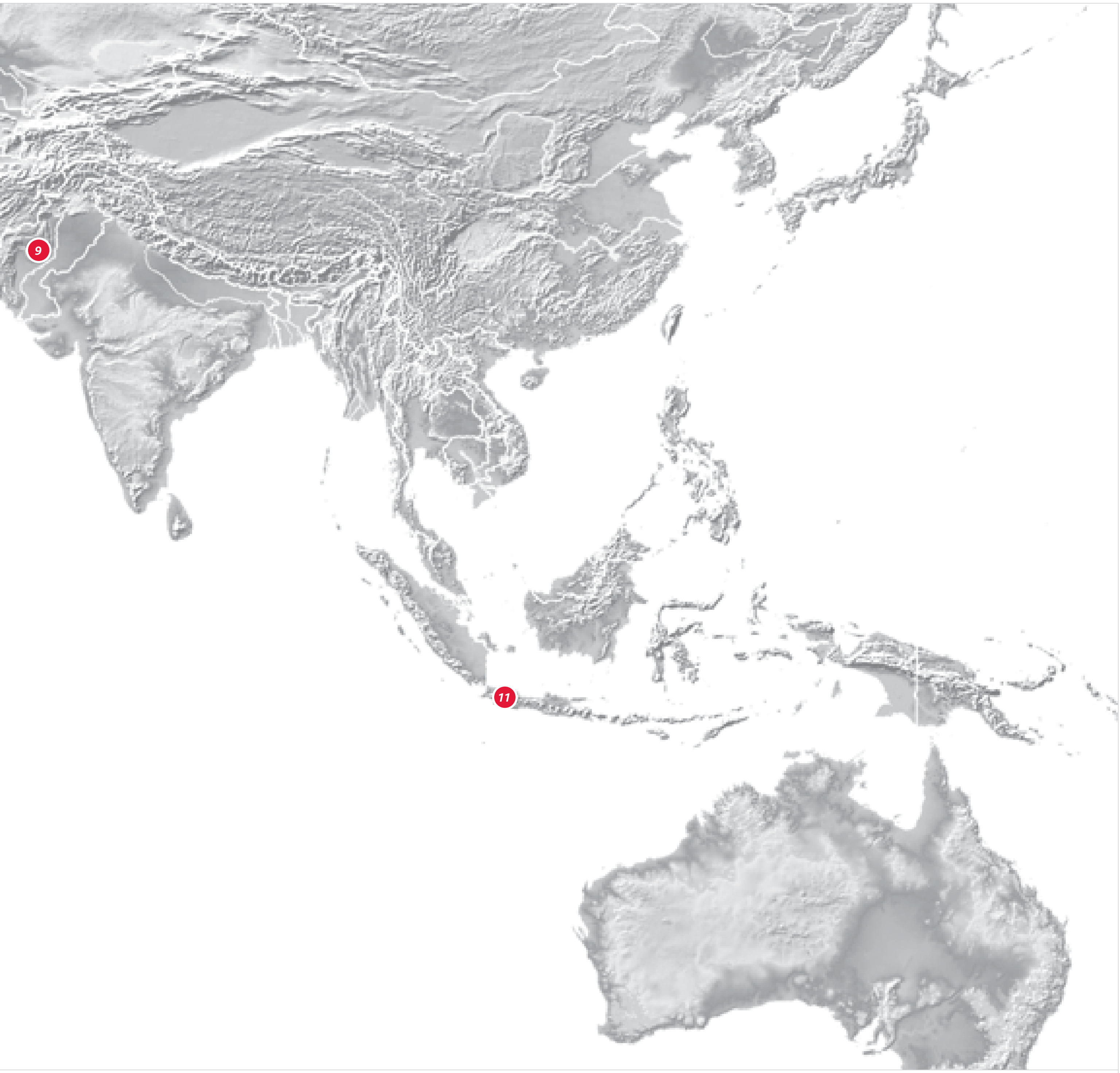
(All figures in US Dollars unless otherwise stated)



Muhammad Al-Idrisi (1099 - 1166 AD)
Muhammad Al-Idrisi was a great geographer, cartographer, botanist, traveler and poet. In the West he is best known as a geographer and his contribution to this field was tremendous. His book 'Nuzhat al-Mushtaq fi Ikhtiraq al-Afaq,' (The Delight of Him Who Desires to Journey Through the Climates) also known as Roger's Book, is a geographical encyclopedia which contains detailed maps and information on European countries, Africa and Asia.

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA GLOBAL NETWORK
A Global Vision of Local Partnerships



	COUNTRY	YEAR		COUNTRY	YEAR		COUNTRY	YEAR	
1.	Jordan	1978	6.	Turkey	1985	11.	Indonesia	2008	Representative Office
2.	Egypt	1980	7.	South Africa	1989	12.	Syria	2009	
3.	Tunisia	1983	8.	Lebanon	1991	13.	Libya	2011	Representative Office
4.	Bahrain	1984	9.	Pakistan	1991	14.	Iraq	2011	Branch of Al Baraka Türk Participation Bank
5.	Sudan	1984	10.	Algeria	1991	15.	Saudi Arabia	2007	Itqan Capital

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA TÜRK PARTICIPATION BANK
Founded 1985

The Turkish economy grew by only 2.8% in 2012, compared with 9.0% in 2011, reflecting poor trading conditions with the eurozone countries. The budget deficit widened to an estimated -2.0% of GDP from -1.4% the year before, but remains relatively healthy. The current account deficit however, although still large, declined to -6.2% of GDP from the -10.3% to which it had risen in 2011. The rate of inflation was an estimated 8.9%, down from 10.4% and slowing steadily in the last few months of the year. The government's medium term programme for 2013-15 envisages a tighter fiscal policy, which should help to bring the current account deficit down. The Central Bank has meanwhile taken measures to ease monetary policy by lowering the upper band of its interest rates.

Despite self-imposed restrictions on balance sheet growth as it sought to preserve its strong capital base given the uncertain environment, Al Baraka Turkey continued to maintain its record of growth in 2012, particularly in the second half of the year. Over the year, its total assets in US dollar terms expanded by a healthy 25% to $6.91 billion. Most of the growth was seen in its financings and investments portfolios, which rose by 30%. Growth in the financings portfolio largely reflected the traditional Murabaha business in absolute terms, with strong growth in the Ijara Muntahia Bittamleek portfolio followed by moderate growth in Musharaka. Total non-trading investments also rose slightly over the year. The asset growth was fuelled by a 24% increase in customer deposits including equity of IAH, in addition to total owners' equity which grew by 29%.

The total operating income for the year increased by 27% in Turkish Lira and 18% in US dollar terms, while operating expenses grew by 39% and 30% respectively, with expansion costs reflected across the board. Of the total operating income, total income from jointly financed accounts and investments grew by 17% to $362 million. After distribution to the IAH of their share of the income, amounting to $284 million – a 24% rise on the previous year - the bank's share as fund owner and as Mudarib of $78 million was 1% below that of the previous year. However, its income from its own sales and investments increased by 28% and that, together with fees and commissions (letter of credit and guarantee issuance) and other operating income, resulted in an operating income of $361 million, 18% higher than the year before, so that net operating income was 7% up at $169 million. After accounting for provisions – once again lower than the previous year - and in spite of increased taxation charge, the net profit realised was $109 million, 14% above that of 2011.

The opening of 15 new branches over the year brought the branch network up to a total of 137 branches, one of which – in Erbil, the fourth largest city in Iraq – is the first overseas branch to be opened by the bank. It also installed a further 15 ATMs to bring its countrywide ATM network up to 149.

Al Baraka Turkey's range of products and services continues to expand as it seeks to meet changing customer needs. Participation accounts (denominated in Lira, US dollars and euros) are offered with a variety of different profit rates in relation to different maturities. Its current accounts enable easy utility payment either in branch or via its Internet and telephone banking services (to which it has recently added a mobile banking service). Its Albaraka WorldCard Shari'a compliant credit cards span a variety of classes, including a card especially for the use of Hajj and Umrah pilgrims, providing electronic access to their bank accounts whilst on Pilgrimage. Similarly, its ATM range addresses the needs of different customer (personal, professional and business) types. Other products include export credit agency programmes and precious metals credits and trading accounts. As an authorised agent and member of the Turkish private pension system, it offers customers a variety of non-interest bearing pension funds as well as Shari'a compliant life insurance.

Al Baraka Turkey intends to maintain its steady expansion, including 20 new branches a year over the next 4 years.

(All figures in US Dollars unless otherwise stated)

AL BARAKA TÜRK PARTICIPATION BANK

Al Baraka Türk Participation Bank was established in 1985 and started operations in the same year. Al Baraka Türk currently renders its services through its 136 branches throughout Turkey and 1 branch in Iraq, 60 of which are in Istanbul and 76 in the leading industrial and commercial cities.

Unit Head:	Mr. Fahrettin Yahsi
Title:	General Manager & Board Member
Address:	Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi, No. 6 34768 Ümraniye Istanbul Turkey
Tel:	+90 216 666 01 01
Fax:	+90 216 666 16 00
	albarakaturk.com.tr

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

JORDAN ISLAMIC BANK
Founded 1978

The Jordanian economy grew by 3.0% in 2012, an improvement over the 2.5% growth of 2011 and in spite of the continuing impact of higher import prices and lower tourism revenues, worsened by the continuing Syrian conflict. The fiscal account remains heavily in deficit, with a budget shortfall estimated at $5 billion for 2012 following the delay until later in the year of a planned reduction in electricity subsidies and the partial reverse of fuel price increases under the government's economic reform programme, in both cases on account of popular protest. The government is being forced to take on increasing amounts of domestic debt to cover the deficit, now estimated at some 11.6% of GDP. Jordan's high level of foreign debt, its large trade deficit exacerbated by high international oil prices, leading to a large current account deficit, makes it overly dependent on foreign grants and expatriate workers' remittances to bridge the gap. Fortunately, foreign aid from the US and GCC countries has been generous, including some $5 billion pledged from the GCC over the next 5 years. In addition, a $2 billion three-year standby loan from the IMF has helped to make up the shortfall, at the same time stiffening the government's resolve to maintain the economic reform programme. Inflation has, moreover, fallen slightly to 4.5% compared with 5.2% in 2011, and is expected to fall over the next two years as food import costs trend downwards.

Despite the weak economy, Jordan Islamic Bank – Al Baraka Jordan – continued to prosper and to expand its operations. Its total assets increased by 4% to $4.26 billion, as a 45% expansion of its financings and investments portfolios – mostly due to increased Murabaha sales receivables and Ijara Muntahia Bittamleek balances – was offset in part by a reduction in Mudaraba financing and non trading investments. This net asset growth was funded mostly by a 4% increase in customer deposits including equity of IAH.

The bank's total income from jointly financed contracts and investments rose by 32% to $204 million. After accounting for IAH share, which amounted to $95 million, the balance earned by the bank including its share as Mudarib was 38% higher than in 2011, at $108 million. Its income from its own sales and investments, Mudarib share from off-balance sheet Equity of IAH, other fees and commissions (including letter of credit and guarantee issuance) and other operating income contributed a further $27 million. Total operating income was therefore $136 million, 20% up on the previous year. Total operating expense was 17% above the previous year's at $62 million, leaving the net operating income 23% higher at $74 million which, after an increased taxation charge but lower provisions, produced a net profit of $51 million, 21% higher than in 2011.

Al Baraka Jordan's branch network expanded by 2 new branches opened during the year, bringing the total to 77 branches and cash offices. It installed an additional 15 ATM machines, and now has a network of 122 machines. It aims to open a further 4 branches in 2013 to bring the total to 81 branches, in addition to increasing the number of ATMs throughout the Kingdom to 160. It will maintain that rate of branch expansion over the following 4 years, so that by 2017 it aims to have 74 branches and 19 cash offices – 93 offices in total.

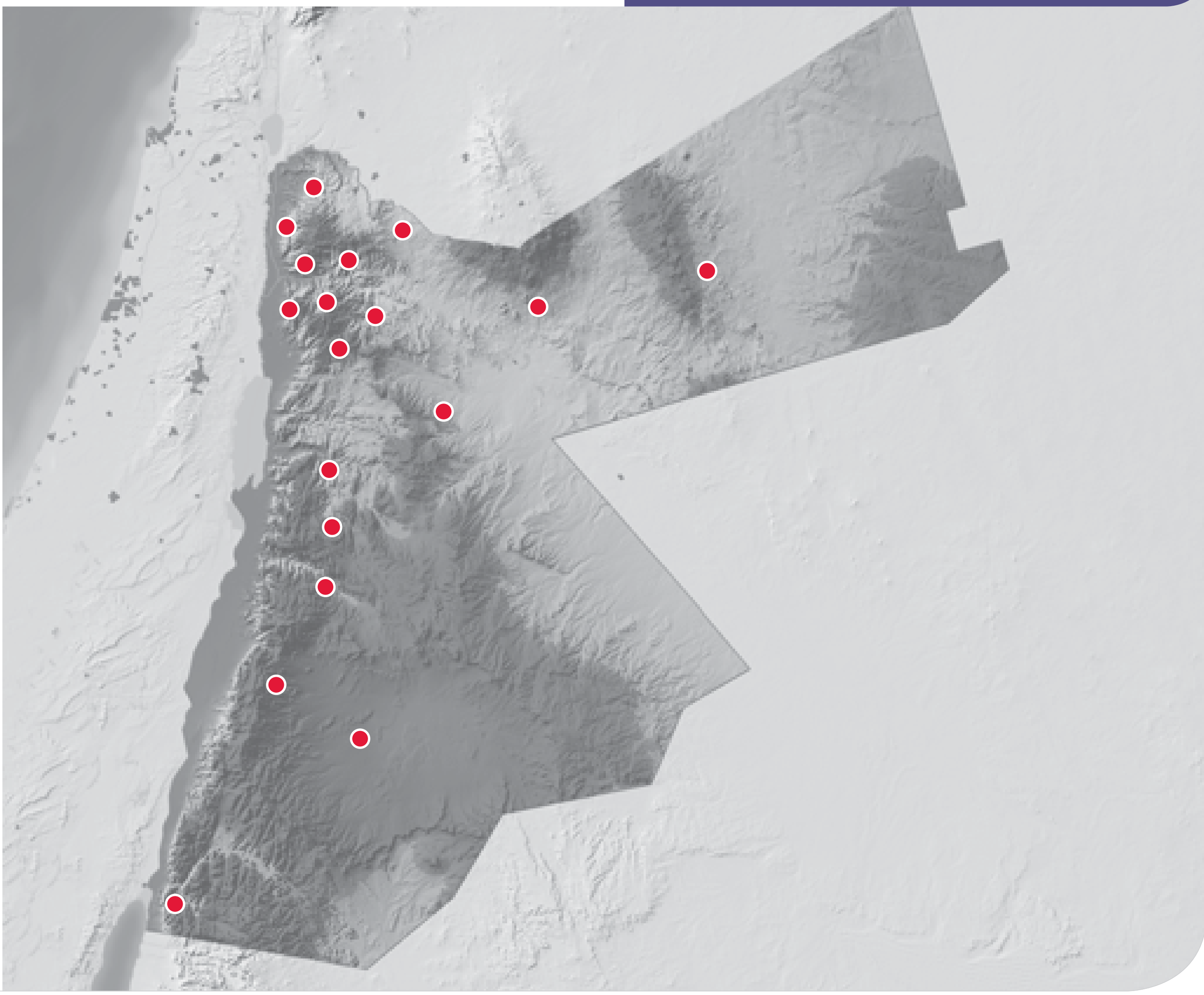
As Al Baraka Jordan continues to enhance its range of products and services, it plans to open a new Contact Centre in 2013, incorporating a Call Centre to inform customers. It will also be introducing new financing and investment products, including accounts for financing tuition fees for schools, colleges and universities, Hajj or Umrah travel costs and medical treatment and surgical operations. It also plans to launch a new premium credit card for VIP customers. Internally, it is currently centralising its risk and credit management processes, while working on implementing operational risk, anti-money laundering (AML) and new scoring and rating systems and finalising the implementation of its new core banking systems.

(All figures in US Dollars unless otherwise stated)

JORDAN ISLAMIC BANK

Jordan Islamic Bank was the first Islamic bank in Jordan and was established in 1978 to carry on all types of financing, banking and investment activities in compliance with the provisions of the glorious Islamic Shari'a. The bank offers its banking, investment and financing services through its 77 branches including 12 cash offices, in addition to a bonded office, distributed throughout the Kingdom of Jordan.

Unit Head: Mr. Musa Shihadeh
Title: Vice Chairman & CEO
Address: P.O. Box 926225
Amman 11190
Jordan
Tel: +9626 567 7377
Fax: +9626 566 6326
jordanislamicbank.com



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK EGYPT
Founded 1980

Following the events of early 2011 the Egyptian economy's growth rate slumped to an estimated 2.2% compared with 5.1% growth in 2010. From this base, growth recovered a little but remained low at an estimated 2.2% in 2012, although on a rising trend. The new government has signalled that it is unlikely to deviate significantly from previous economic policy including a long term economic reform programme, with the budget for fiscal year to June 2013 maintaining an emphasis on social equality, including increased spending on wages and benefits. The resultant growing fiscal deficit – which reached -10.7% of GDP in 2011/12 – the funding of which is reliant on domestic borrowing, looks set to continue, but is becoming more expensive in the light of continuing uncertainties. The Central Bank responded to these concerns by reducing reserve requirements on the banks to allow more liquidity into the market to stimulate lending.

Egypt's large structural trade deficit was estimated to have increased to $39.7 billion in the 12 months to November 2012 as exports slowed and imports rose in value. The current account deficit rose to an estimated -2.0% of GDP compared with -2.1% in 2011. However, foreign exchange reserves rose to $15.1 billion, although this partly reflected contributions from two Gulf States and the proceeds of a successful euro-denominated Treasury bill issue. The government has meanwhile agreed with the IMF on a standby credit of $4.8 billion, increased from its earlier request for $3.2 billion which, together with a moderate foreign currency debt position, places is in good stead with investors and other potential lenders. Other positive indicators of the underlying health of the economy and its improving trend over the year included the fall in the cost of treasury bills issued by 1.25% to 1.5% - indicative of a lower risk perception of government debt – and a 65% rise in share values on the Egyptian Stock Exchange - one of the best performances on global financial markets. The rate of inflation has also been relatively stable, at 7.2% compared with 9.6% for 2011.

Al Baraka Egypt responded to a national rise in defaults in the retail banking sector by adopting a conservative and very selective policy towards new business. Despite the cautious approach, however, its total assets rose by 10% to $2.71 billion as its total financings and investments grew by 11% to $2.38 billion, with the majority of the growth occurring in Murabaha sales receivables, investments and fixed assets and equipment for the branch network, with Mudaraba somewhat reduced. The increase was funded mainly by a rise of some 12% in customer deposits including equity of IAH and increased owners' equity.

The bank's total income from joint financings and investments rose by 14% to $228 million, of which its own share, including its share as Mudarib, amounted to $87 million, 23% above that earned in 2011, with the investors' share rising to $141 million compared with $130 million the year before. After accounting for income from fees and commissions, and other operating income, the total operating income increased by 20% to $102 million. Total operating expenses increased by some 27% to $41 million, mainly on account of increased staff costs and other operating expenses. Net operating income was therefore $61 million, representing an increase of some 15%, which, after reduced provisions and increased taxation, resulted in a net profit for the year of $23 million, 32% above the result for 2011.

Al Baraka Egypt added to its network by inaugurating one new branch in 2012, in Al Azhar, bringing the total to 27 branches and foreign exchange bureaus. During the year it introduced a new savings product on which return is paid on a daily basis. At the end of the year it also announced the issue of an Al Baraka US Dollar Islamic Sukuk, similar to the successful 10-year Egyptian pound issue in 2011. It also launched, in cooperation with one of the biggest religious tourism companies, a facility for financing Hajj and Umrah trips with repayment in instalments following the visit, the first such product of its kind in Egypt. This was followed by a new Shari'a compliant product to finance timeshare leasing, in cooperation with the biggest real estate company in the sector. It was pleased to announce the signing of an Islamic Musharaka contract with the Social Fund for Development through the World Bank, in the amount of E£200 million, for financing small and medium-sized enterprises.

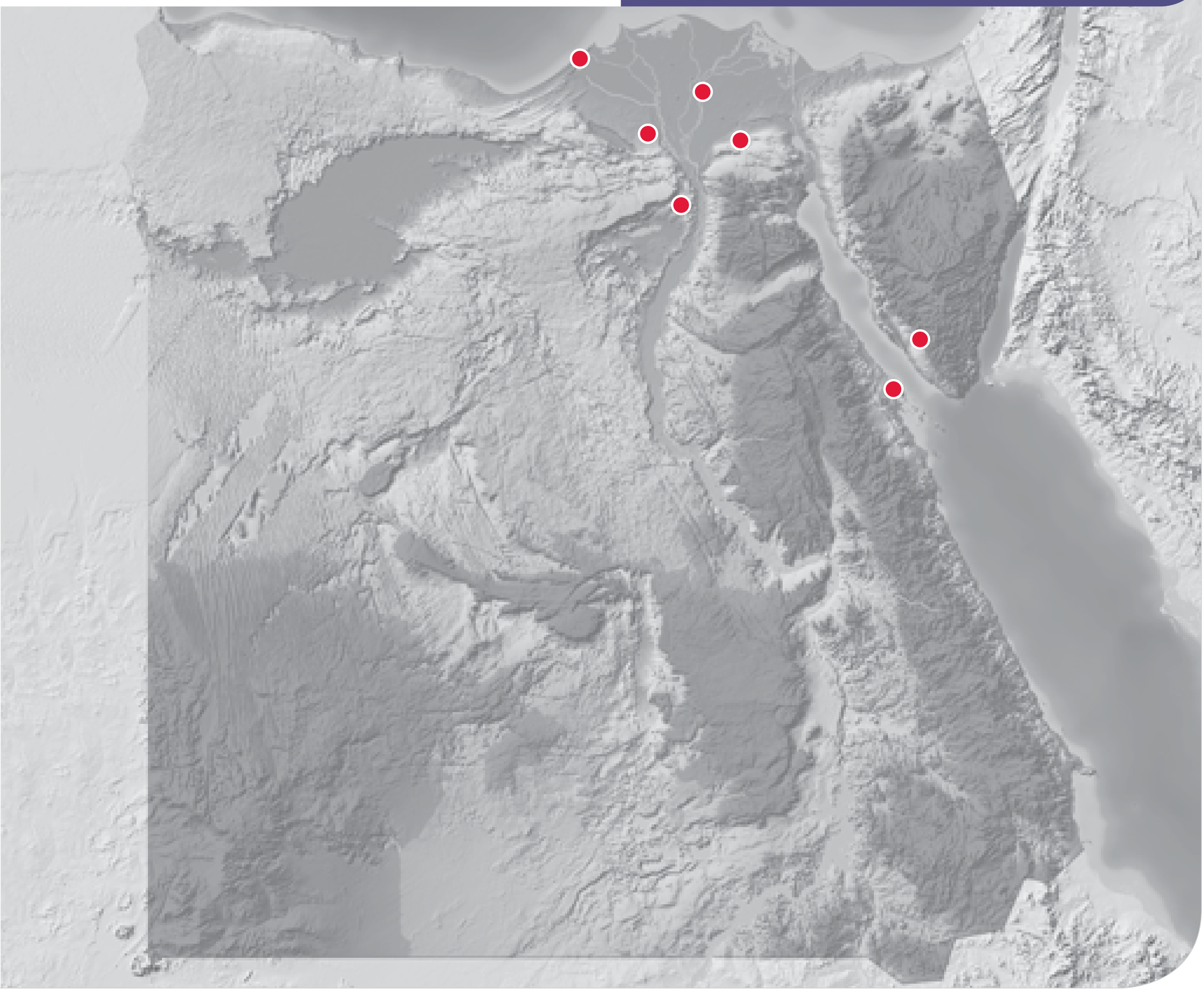
The bank plans to open 4 new branches in 2013 to bring the network total up to 31. Its rolling programme anticipates thereafter the expansion of the network by 3 new branches each year, to reach 44 by 2017. Its preparations meanwhile for the launch of its Internet and mobile banking services are almost complete, in addition to the launch in 2013 of an Islamic credit card in three categories: gold, silver and bronze, only awaiting full implementation of the second phase of its new core banking system.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK EGYPT

Al Baraka Bank Egypt commenced its activities in accordance with Shari'a principles over 22 years ago and has grown as an Islamic institution to become one of the foremost in the Egyptian market. It provides a variety of services, products and savings deposit options to suit different requirements and financing programmes to meet the requirements of various sectors of the Egyptian market, in addition to credit facilities for companies and joint financings for large and important national projects. The bank currently has 23 branches and 4 foreign exchange offices, spread across the major Egyptian cities.

Unit Head:	Mr. Ashraf Al Ghamrawi
Title:	Vice Chairman & CEO
Address:	60, Mohie Elddin Abu Elezz Street P.O. Box 455 Dokki, Giza Egypt
Tel:	+2023 748 1222
Fax:	+2023 761 1436/7
	albaraka-bank.com.eg



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

BANQUE AL BARAKA D'ALGERIE S.P.A.
Founded 1991

Partly on account of reduced trade with the eurozone, Algeria's main trading area, the country's GDP growth was a little less than in 2011, at an estimated 2.6%. The rate of inflation however surged to an estimated 8.9%, well above the 4.5% experienced in recent years. The current account surplus continued to grow as a result of consistently high oil and gas revenues and steady non-hydrocarbon economic growth. Foreign exchange reserves now stand at around $90 billion, compared with total external debt of only $2.5 billion or 1.2% of GDP.

Algeria's huge hydrocarbon reserves and ongoing revenues has allowed the government to continue with its long term strategy of investing in projects benefiting the Algerian people and reducing unemployment. Increased inward foreign investment, encouraged by a reformed, more flexible and simplified taxation system including five years' tax relief for new projects, has been partly responsible for the increased infrastructure development. However, the main impetus behind capital spending increases has been the government's current 5-year $286 billion development programme, aimed at developing the non-hydrocarbons industries and the services sector, increasing housing and reducing unemployment, which is funded largely by the banking sector but which, if necessary, could draw on the estimated $74 billion oil stabilisation fund.

The Central Bank increased the cash reserve rate for banks from 9% to 11%, while their capital adequacy ratio is required to be maintained at 21%.

In 2012 Al Baraka Algeria's total assets rose by 5% to $1.84 billion, with increased liquid assets offset by a 2% decline in total financings and investments. The Murabaha financings, the largest component of financings, fell by 17% to $434 million, although this was partly compensated by a 41% increase in Ijarah Muntahia Bittamleek at $199 million. The drop in Murabaha turnover was the continuing consequence of the stringent regulations introduced by the Central Bank in 2010 to curb personal debt in Algeria. The asset growth was funded by a 9% increase in customer deposits.

Reflecting this decline in Murabaha business, Al Baraka Algeria's total income from joint financings and investments fell by 11% to $52 million. However, the share attributable to the IAH was only 6% below that of the previous year, so that the bank's share, including its share as Mudarib, was $32 million, 14% lower than in 2011. Fees and banking commissions and other operating income were together only 8% higher – a 39% increase in letters of credit turnover – so that total operating income ended the year at $111 million, little changed from 2011. Total operating expense was 1% higher at $36 million, leaving a net operating income of $75 million and, after significantly lower provisions and somewhat higher taxation charge, producing a net profit of $54 million, 4% higher than that for 2011. The growth in Algerian Dinar was much higher at 11% as the Algerian Dinar fell by around 5% against the US Dollar in 2012.

Al Baraka Algeria continued to develop its product range. In addition to rolling out its successful microfinance facility product across the whole country, it launched new Takaful insurance services and an Ijara for rental payments. It has also completed the preparatory work for the introduction in 2013 of a new Hajj and Umrah savings product as well as a financing product specifically designed for very small enterprises (VSEs). Its Visa card will be able to offer cash advances to travellers abroad from the middle of 2013. Once its core banking system is fully implemented it will launch a variety of e-banking services. During the last quarter of 2012, Algeria opened one more branch to expand its network. 2013 will also see the opening of 4 new branches, bringing the network up to 30, with 45 planned by 2017.

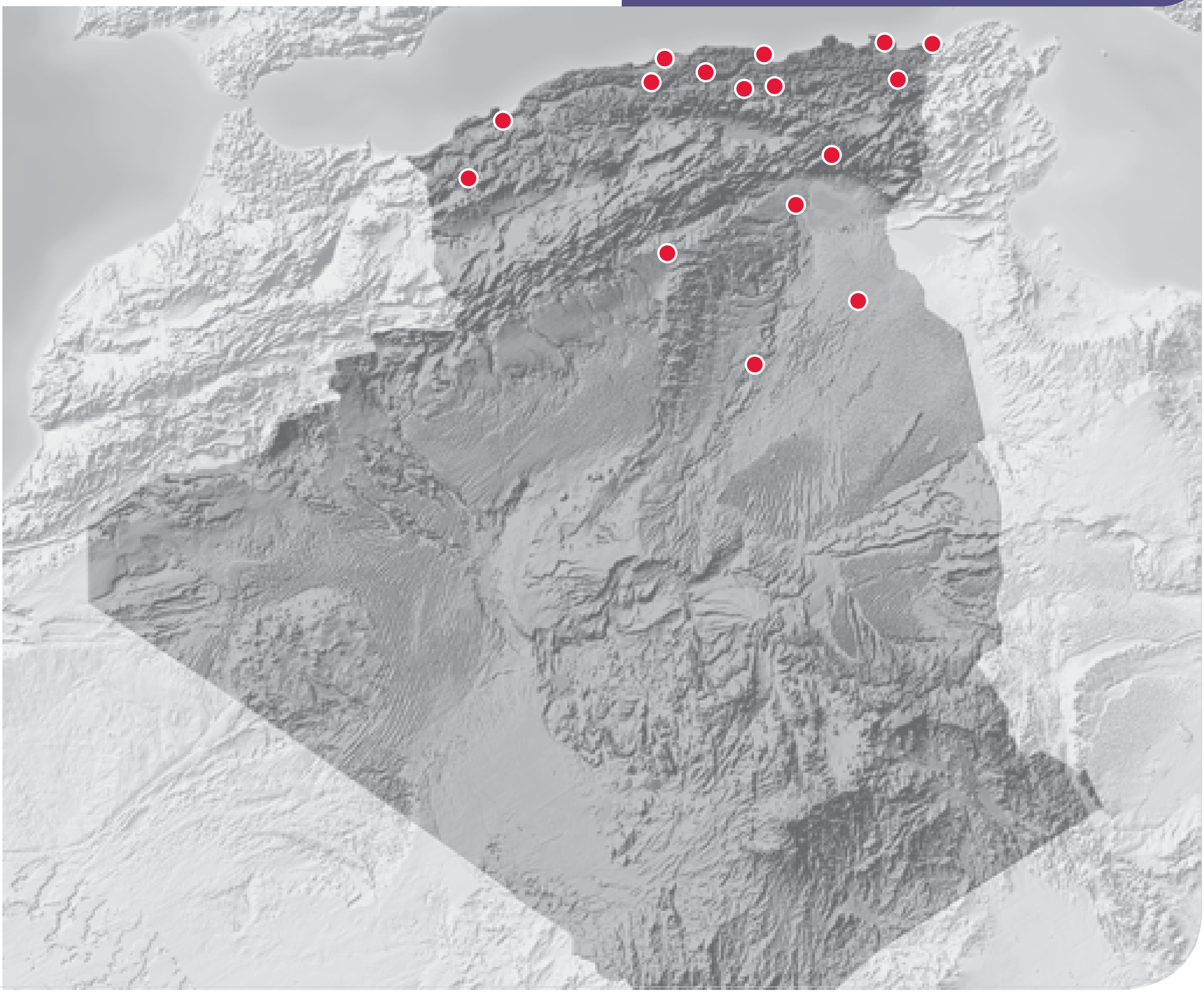
(All figures in US Dollars unless otherwise stated)

BANQUE AL BARAKA D'ALGERIE S.P.A.

Banque Al Baraka D'Algerie was incorporated in May 1991 as the first Islamic Bank and operates under a commercial banking license issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 26 branches.

Unit Head:	Mr. Mohamed Seddik Hafid
Title:	Board Member & General Manager
Address:	Hai Bouteldja Houidef, Villa No. 1 Rocade Sud, Ben Aknoun Algiers Algeria
Tel:	+213 21 91 64 50 to 55
Fax:	+213 21 91 64 58

albaraka-bank.com



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA ISLAMIC BANK B.S.C.
Founded 1984 - Bahrain

From an exceptionally low growth rate of only 1.5% in 2011, Bahrain's GDP grew by an estimated 3.9% in 2012. This was mainly due to the continuing strong global oil prices feeding into the country's revenue earnings chiefly from oil and refined petroleum products. For similar reasons, the current account surplus rose over the period. The rate of inflation however remained low.

The slowdown in the economy due to recent unrest has started to recover. Business activity has remained largely unaffected, with the exception of the comparatively small tourism sector. However, in its effort to return the country to its traditional peace and stability, the government continues to promote private sector growth and try to diversify the economy away from the hydrocarbons sector. It is increasing public spending by boosting subsidies, while accelerating investment in new capital projects in an effort to increase employment. A number of large construction projects in the Bahrain Bay area off the coast of Manama have recently been announced, which are expected to help reduce unemployment and lead to increased foreign direct investment. It seeks to build on its successful development of the financial services industry over the last three decades, with its sound regulatory grounding, particularly in the Islamic banking and finance field. In January 2013 Standard & Poor's revised its BBB rating outlook of Bahrain from "Negative" to "Stable".

Bahrain announced that it had signed a Free Trade Agreement with the United States, the first country in the Gulf to do so, which it plans to use as a launching pad for greater diversification of the economy.

Al Baraka Bahrain, operating under a retail banking licence from the Central Bank, was one of the first Islamic banks to be established in Bahrain. After spreading to Pakistan in 1991, subsequently opening several branches over the years, it acquired a local bank in Pakistan in 2010, merging the local branches' operations to create the second largest Islamic retail banking institution in Pakistan.

In 2012 Al Baraka Bahrain's total Bahrain-based assets contracted by 16% to $713 million. The fall was primarily due to a special situation which arose in December 2011 when a large letter of credit was issued on behalf of a client, for which a substantial cash margin was taken, thus temporarily increasing both assets and liabilities by this amount. The transaction matured in 2012, when the position reverted to normal. Additionally, and partly reflective of the downturn in trade in Bahrain over the course of the year, some additional facilities ran their course and were not replaced by new business. These reductions in business volume were reflected to some extent in the total financings and investments, which fell by 14% to $601 million, of which the Murabaha sales receivables at the end of the period had declined by 24% to $235 million and the Mudaraba and Musharaka portfolios by 25% to $82 million. Customer deposits including equity of IAH declined by 6% for similar reasons, to $542 million, of which equity of IAH of $404 million, which declined by 10%, accounted for the majority.

The Bahrain-based total operating income, however, rose by 6% to over $18 million, largely due to income from joint financings and investments, which increased by 6% to $23 million and, after accounting for the IAH share, resulted in the bank's share including its share as Mudarib increasing by 8% to $12 million. The remainder of the operating income, constituting income from its own sales and investments, Mudarib share from the off-balance sheet equity of IAH, banking fees and commissions and other income, was unchanged at $6 million. Total operating expense, on the other hand, increased by 9% to a little under $20 million, leaving a net operating loss of $1 million which, after provisions, resulted in a net loss for the year of $5 million, compared with a small net profit in 2012 of less than $1 million.

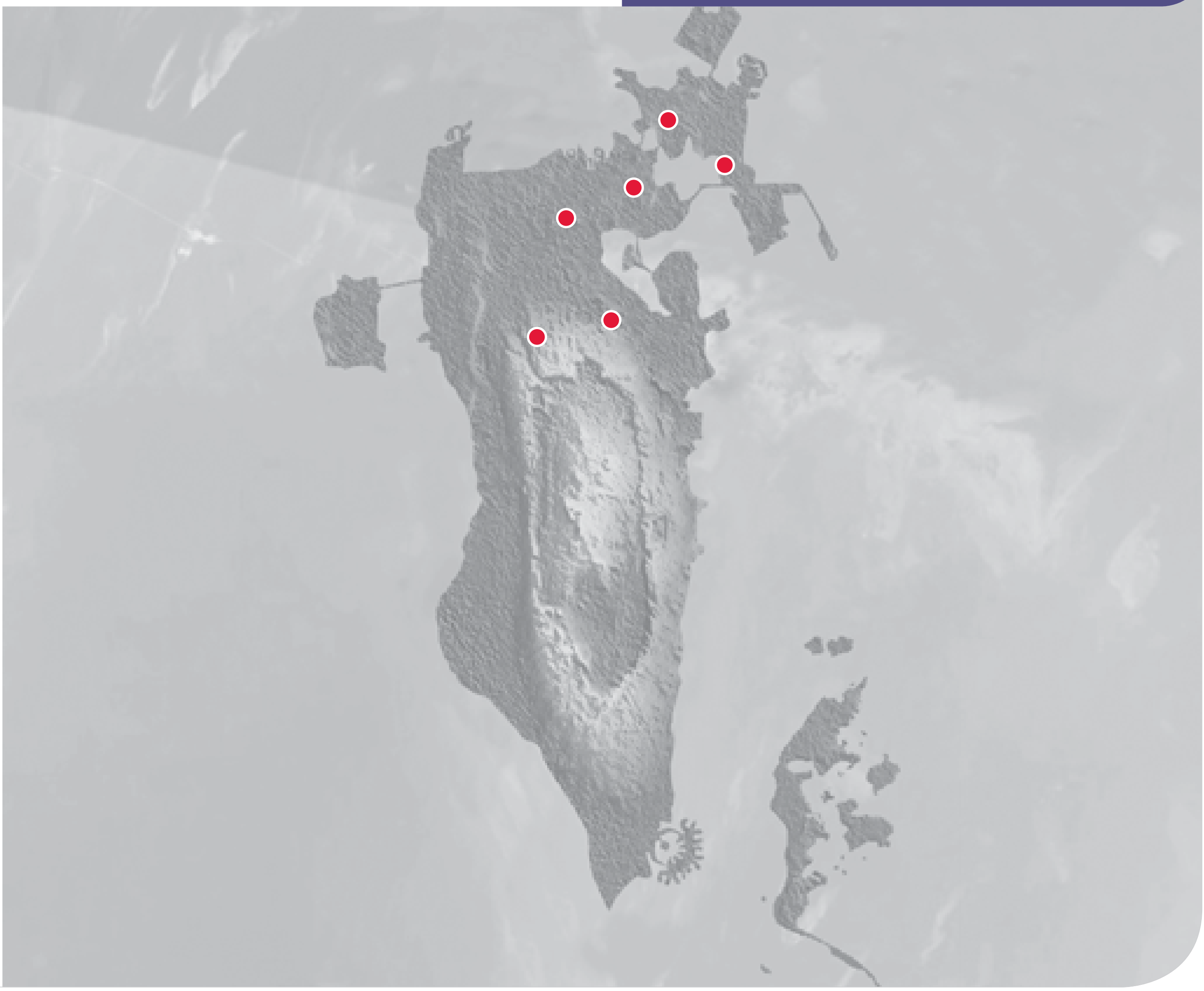
Under its strategic plan for expansion in Bahrain, Al Baraka Bahrain plans to open 2 new branches in 2013, bringing the network up to 8 branches, with a long term aim of 16 branches by 2017. It now has an ATM network of 16 machines spread across Bahrain. In addition to its existing product range of personal, housing and auto finance and its Taqseet (repayment by instalments) card offering multiple Murabaha finance transactions through a single card, it recently soft launched online and mobile banking and has plans to launch a prepaid travel card and Takaful insurance products in the near future.

(All figures in US Dollars unless otherwise stated)

AL BARAKA ISLAMIC BANK B.S.C., - BAHRAIN

Al Baraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as a retail Islamic bank. It obtained a commercial banking license in Pakistan in 1991. The bank operates 6 branches in Bahrain and 94 branches in Pakistan.

Unit Head:	Mr. Mohammed Al Mutaweh
Title:	Board Member & CEO
Address:	Al Baraka Tower, Building No. 238 Road No. 1704, Block No. 317 Diplomatic Area, P.O. Box 1882 Manama, Kingdom of Bahrain
Tel:	+973 17 535 300
Fax:	+973 17 533 993
	albaraka.bh



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA ISLAMIC BANK B.S.C. BAHRAIN (continued)

AL BARAKA BANK (PAKISTAN) LIMITED
Founded 2010

Pakistan's GDP grew by a moderate 4.2% in 2012 compared with 2.4% in 2011. Nonetheless the economy continued to suffer, in the wake of the floods of 2010 and the acute power shortages which followed them. The large fiscal deficit stood at -6.6% of GDP in the fiscal year to June 2012 and is anticipated to remain around the same for 2012/13. Economic expansion remains an uphill task, in light of structural imbalances and ongoing power supply shortages. The current account deficit deteriorated yet again in 2012, to an estimated -1.6% of GDP from -1.3% in 2011. The rate of inflation was estimated at 9.7%, similar to the year before.

The State Bank of Pakistan continued its efforts to stimulate the economy by once again reducing its discount rate steadily since the beginning of the fiscal year 2012/13, reaching an aggregate reduction of 2% by October.

Al Baraka Bank (Pakistan) Limited began life in 1991 when it was established by Al Baraka Islamic Bank (Al Baraka Bahrain) as a foreign bank under a commercial banking licence granted by the State Bank of Pakistan. In 2009 Al Baraka Bahrain received the approval of the State Bank of Pakistan for its Pakistan arm to be licensed as a separate bank. In October 2010 Al Baraka Bahrain acquired Emirates Global Islamic Bank, the resultant new entity emerging as a subsidiary of Al Baraka Bahrain and the second largest Islamic bank in Pakistan.

Al Baraka Bank Pakistan's total assets declined in 2012 in US dollar terms by 6% to $750 million due to the fall in the exchange rate of the Pakistan Rupee over the period. The decline in assets was reflected in a 4% reduction in total financings and investments, which fell to $585 million, largely on account of a 20% decline in Murabaha sales receivables. This in turn was reflected in a 5% decline in customer deposits including equity of IAH.

As a consequence of the reduced Murabaha activity, total income from joint financings and investments fell by 14% to $61 million. The share of the IAH declined by 13% to $50 million and, after accounting for this, the bank's share including its share as Mudarib was $11 million or 20% below that of 2011. Its combined income from its own sales and investments, fees and commissions and other operating income being 18% below that of the previous year, the total operating income was 19% lower at $21 million. Total operating expense was not dissimilar from 2011 at $21 million, so that the net operating income was reduced to $0.2 million which, after accounting for higher provisions but a write back of taxation charge, resulted in a net loss for the year of $6 million, compared with 2011's net profit of $2 million.

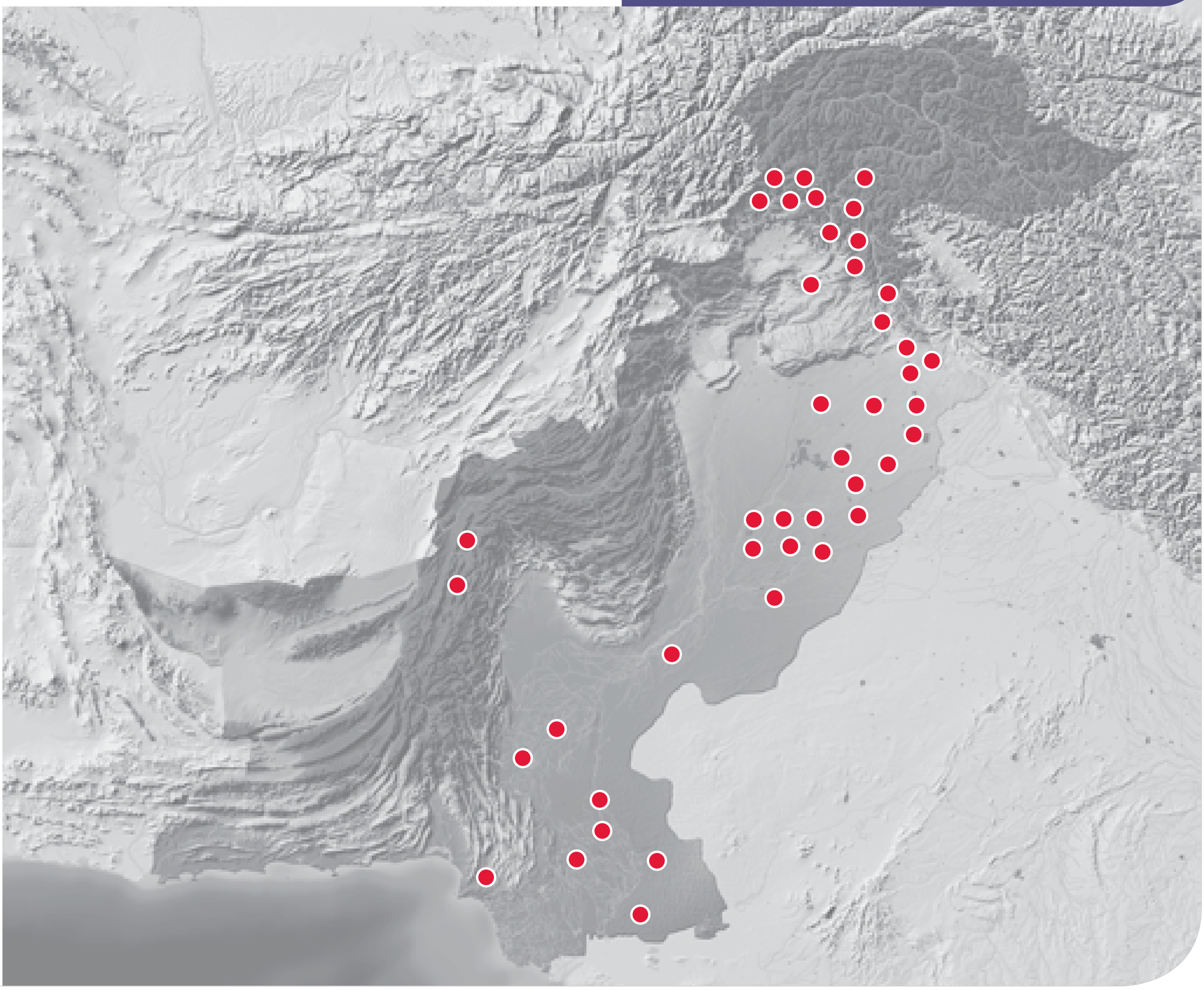
The bank opened 5 new offices in 2012, expanding the total network from 89 to 94 branches. This is in keeping with its ambitious strategic plan, to establish a network of about 225 offices by 2017. New products added to the range included the introduction of Tijarah – a short-term financing facility for manufacturers whereby the bank purchases the finished goods before they are sold to the ultimate buyer by the manufacturer acting as agent for the bank. It enhanced its Sarparast savings and investment plan to include Takaful life insurance and introduced its Rahnuma travel service which provides complete, Shari'a compliant Hajj and Umrah travel packages as well as complete packages to select destinations such as Dubai, Malaysia and Thailand.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK (PAKISTAN) LIMITED

Has been present in its erstwhile form of 29 branches of Al Baraka Islamic Bank B.S.C. since 1991. In October 2010, it acquired Emirates Global Islamic Bank to form Al Baraka Bank (Pakistan) Limited with a total of 94 branches.

Unit Head:	Mr. Shafqaat Ahmed
Title:	Board Member & CEO
Address:	162, Bangalore Town Main Shahrah-e-Faisal Karachi Pakistan
Tel:	+92 21 34315851
Fax:	+92 21 34546465
	albaraka.com.pk



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK TUNISIA
Founded 1983

The Tunisian economy is reckoned to have grown by some 3.0% in 2012 compared with the -1.8% negative growth the previous year. In the aftermath of the people's revolution of January 2011 and the replacement of the previous President with a democratic government, the return to relative normality in the economy has been a cause for much optimism. However the process has been a gradual, although steady one and has also been affected by the country's proximity to Libya and the events there. Standard & Poor's rating agency rated Tunisian foreign long-term debt at BB in May 2012.

The government is pursuing a policy of fiscal expansion, financing infrastructure development as a driver for employment creation. The Central Bank is likely to adopt a benevolent monetary policy to expand liquidity, although this is likely to produce an increase in inflation. The rate of inflation in 2012 was estimated at 5.0%, up from 3.5% in 2011. Tunisia has a structural trade deficit, which widened in 2012 as exports were impacted by lower demand from the EU, Tunisia's most important market. However it usually maintains a positive services balance on account of tourism and other service revenues, supplemented by transfers from expatriate Tunisians and inward investment, reducing the size of the overall current account.

The Central Bank announced that it intends to conduct a comprehensive review of all Tunisian state banks, with the intention of restructuring them.

Impacted by the significant rise of the US dollar against the Tunisian Dinar, in 2012 Al Baraka Tunisia's total assets rose by only 4% to $569 million, as a 9% decline in its Murabaha sales receivable was compensated by 50% growth in its Mudaraba portfolio and the increase in Ijarah Muntahia Battamleek by $5 million. Customer deposits increased by 6%, mainly due to a 21% expansion in the equity of IAH. Total income from joint financings and investments was 2% up at $20 million although, after accounting to the IAH for their share, the bank's share including its share as Mudarib was 7% higher than in 2011 at $14 million. With the inclusion of its income from its own investments, banking fees and commissions and other income, its total operating income was also 7% higher at just over $20 million. As total operating expense at $11 million was 9% higher than in 2011, however, the net operating income was only a little higher at $10 million. After substantially increased provisions and taxation charge, the bank reported a net profit of $5 million, 38% below the $8 million recorded the previous year.

Following the full implementation of its new core banking systems, Al Baraka Tunisia can now offer full e-banking services to its customers. During the year it launched its Gold Visa Card. It will be launching its new mobile banking service in 2013, when it also plans to launch a Platinum Visa Card for its premier customers. The bank is seeking a resident banking licence and intends to convert itself from an offshore to an onshore bank once the authorities have approved this measure, which it expects will allow it to expand its customer base and overall business activities. In anticipation of the introduction by the authorities of a new Islamic banking law, the bank also has under development a number of financing and investment products to be launched in 2013. A business centre at the main branch, focusing on the needs of businessmen and enterprises, which had been planned for 2012, is also now expected to be unveiled in 2013. Under its revised 5-year rolling expansion plan, it will work towards opening 2 more branches by 2017, bringing its network to 10, with the ATM network being expanded accordingly.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK TUNISIA

Al Baraka Bank Tunisia was established in 1983. The bank has both offshore and local retail activities in accordance to Shari'a principales. The bank operates 8 branches across Tunisia.

Unit Head:	Mr. Fraj Zaag
Title:	Board Member & General Manager
Address:	88, Avenue Hedi Chaker 1002 Tunis Tunisia
Tel:	+21671 790000
Fax:	+21671 780235
	albarakabank.com.tn

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK SYRIA s.a.
Founded 2009

A shortage of foreign currency on account of the combined impact of the EU embargo and sanctions on the Central Bank of Syria has resulted in the depreciation of the Syrian Pound by over 20% over the year despite Central Bank intervention. Meanwhile, the continuing crisis has enlarged the fiscal and current account deficits.

Al Baraka Syria began commercial operations during the third quarter of 2010. It managed to achieve profitability as early as 2011, its first full year of operating, and in 2012, despite the enormous logistical and economic problems arising from the civil turbulence continuing in Syria, it once again managed to grow and to make another positive contribution to the Group. Although its deposits – including foreign currency deposits - surged (customer deposits including equity of IAH rose by 96% in Syrian Pound terms but, in view of the sharp fall in the value of the local currency, by 37% in US dollar terms) the bank made a deliberate decision to restrict its financings during this difficult time. While its total assets grew by some 84% in Syrian Pound terms and 28% in US dollar terms, most of this growth was kept in liquid assets.

The bank focused primarily on expanding its off-balance sheet business such as letter of credit and guarantee issuance, which in themselves generated significant income. Total operating income amounted to $25 million compared with $11 million the year before, whilst operating expenses totalled $7 million, producing a net operating income $18 million and, after significantly increased provisions and a higher allowance for taxation, a net profit of $9 million, compared with $4 million in 2011.

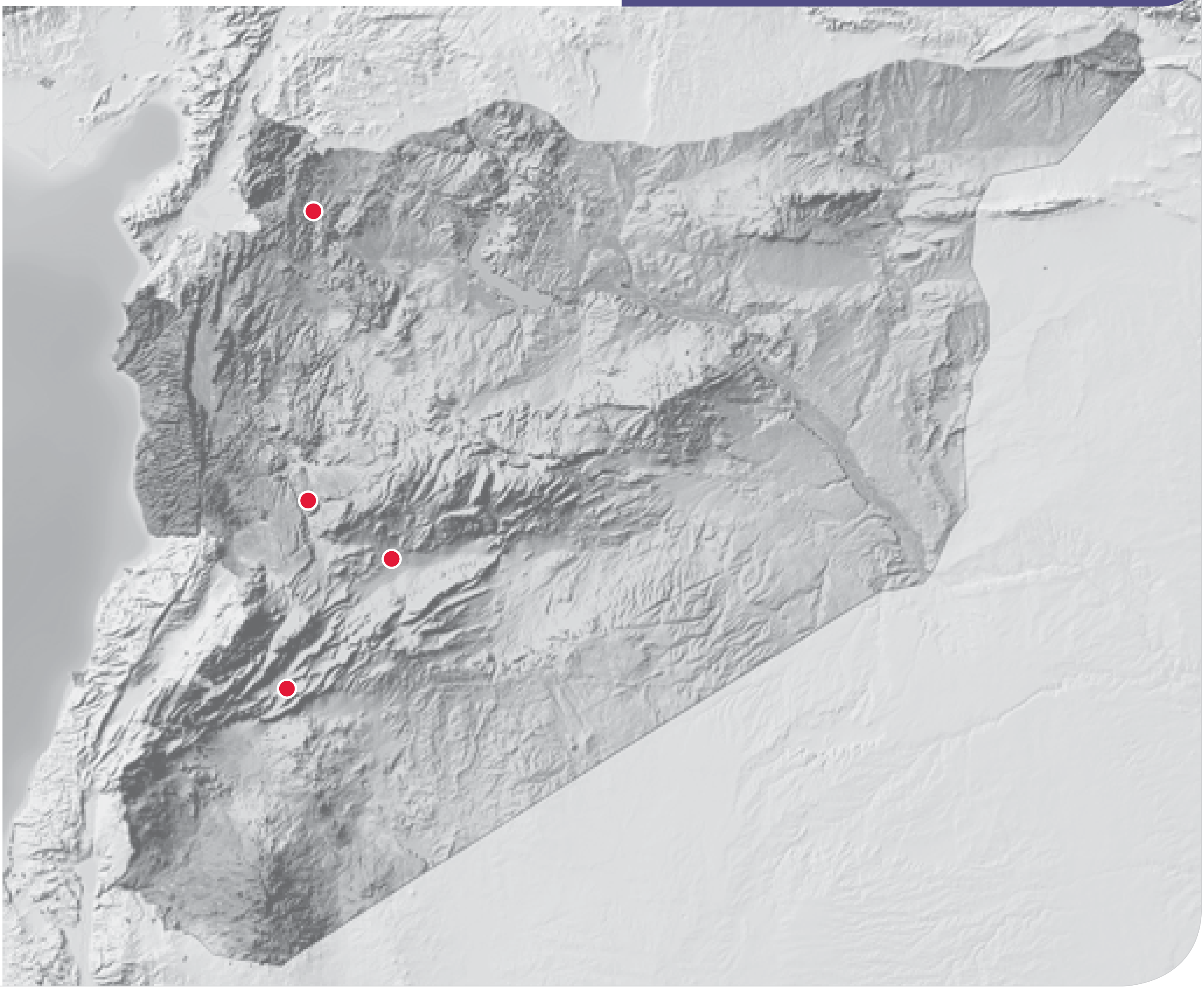
The year saw the establishment of a Call Centre and the launching of SMS banking services. In response to local market conditions, the bank will continue to develop new products and services to add to its existing range of corporate and retail facilities, treasury products and investment and deposit accounts, trade finance and electronic money transfer services and a spread of e-services including Internet banking and electronic debit cards. It recently added monthly income deposits to its range. In 2013, subject to favourable market conditions, it plans to open 3 more branches and install additional ATMs. It will also be engaged in making preparations for establishing a new headquarters building in Yafour, outside Damascus. Its rolling 5-year branch network plan continues to anticipate having 30 branches established by the end of 2017.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK SYRIA s.a.

Al Baraka Bank Syria started its operations in accordance with Shari'a principles during 2009 and has grown as an Islamic institution offering a variety of financing products and services that suit different market segments and address their financial needs, via a chain of 9 branches spread across the major cities in Syria.

Unit Head:	Mr. Mohammed Halabi
Title:	Chief Executive Officer
Address:	Alshahbander Street P.O. Box 100 Damascus Syria
Tel:	+963 11 443 78 20
Fax:	+963 11 443 78 10
	albarakasyria.com



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK LIMITED
Founded 1989 - South Africa

The South African economy was inevitably affected by the economic slowdown in the eurozone countries and China, its most important markets, but with growth estimated at around 2.6% it demonstrated strong resilience in the circumstances. The Rand, which had depreciated against the US dollar by more than 20% over 2011, was also relatively stable throughout much of 2012, although slumping in early 2013. The rate of inflation was estimated at 5.8% compared with 6.0% the previous year. The budget deficit is estimated at -4.8% of GDP although the medium-term policy is focused on spending restraint, which it is to be hoped will bring the rate down. The current account deficit stood at around -6.3% of GDP, up from -4.1% in 2011.

Under the instructions of the Reserve Bank of South Africa, a halfway stage between Basel II and Basel III was adopted by all South African banks in 2012, with Basel III proper being introduced from 1st January 2013. The impact on banks will be to phase in increased liquidity and capital requirements over 5 years.

Al Baraka South Africa's total assets increased in 2012 by 9% to $437 million. The majority of this growth was seen in the financings and investments portfolios, which expanded by 10% in aggregate, Musharaka showing the greatest strength with 15% growth to $219 million, although the Murabaha receivables were up a respectable 4% on the year at $165 million. On the liabilities side, the bank's customer deposits, including equity of IAH, also increased by 10%, of which the IAH accounts was the largest component at $369 million.

Total operating income remained stable at $18 million as the total income from joint financings and investments was virtually unchanged at $32 million and following distribution to the IAH of their share – also similar to 2011 – the bank's income from this source, including its share as Mudarib, was again $15 million. With other income and fees being equally little changed, operating income was 4% higher at $18 million. Total operating expense was little changed at $13 million, so that the net operating income was $5 million which, after accounting for provisions and taxation charge, resulted in a net profit of $3 million, 25% higher than in 2011.

During the year Al Baraka South Africa opened a new corporate office, in Gauteng, together with a new office geared to the needs of professionals in Killarney, both in Johannesburg. This brought the number of offices in its network to 11. It intends to open a further 2 branches over the next 5 years, to bring its network up to 13 in 2017. As planned earlier, it duly launched its full foreign exchange business in the last quarter of 2012 and cheque account at the beginning of 2013. Among its suite of products the bank features, on the investment side, a Hajj investment account which earns profit annually and is eligible for an annual draw for a return air ticket and Shari'a compliant unit trusts, along with participation accounts and monthly investment accounts, and the financing of motor vehicles, residential and commercial property, other asset based finance and trade finance. For 2013, it plans the launch of a new Corporate Save Account, which has been developed in response to demand by attorney and accountant clients who have a need to manage their clients' trust money and accounts.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK LIMITED - SOUTH AFRICA

Al Baraka Bank Limited was established in 1989 and operates as a commercial Islamic bank. The bank has 5 corporate offices and 6 retail branches and a business office.

Unit Head: Mr. Shabir Chohan

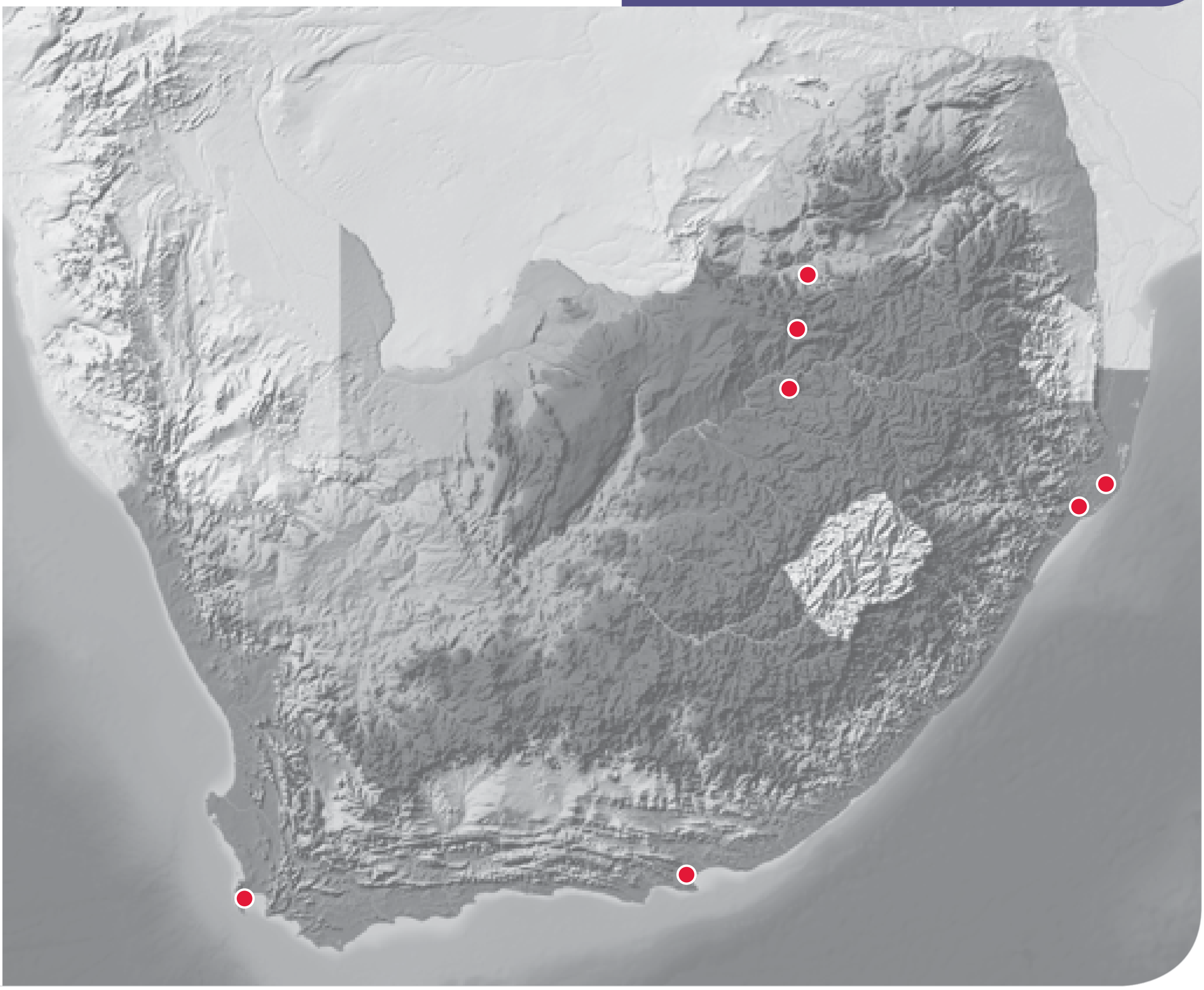
Title: Board Member & CEO

Address: 2 Kingsmead Boulevard
Kingsmead Office Park
Stalwart Simelane Street
P.O. BOX 4395
Durban 4000
South Africa

Tel: +2731 364 9000

Fax: +2731 364 9001

albaraka.co.za



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK LEBANON S.A.L.
Founded 1991

The Lebanese economy, which has traditionally had close ties with the Syrian economy, has undeniably been impacted by recent events in Syria and the damage to that country's economy from the sanctions imposed by the EU and the US. Nonetheless the economy has not been as badly hit as one would suppose. At the end of 2012 Lebanon's GDP growth was still positive at an estimated 2.0% compared with 1.5% in 2011 and 7% in 2010. The unemployment rate increased, however, from 19% to 24%, as the tourism industry suffered from fewer visitors leading to a 25% drop in revenues. The government's fiscal deficit stands at around -7.8% of GDP, with high debt servicing costs adding to the burden. Foreign direct investment fell by 26%, while inward remittances from expatriate Lebanese also declined. The rate of inflation continued to be a source of concern, reaching an estimated 6.5%, up from 2011's 5.1%.

Al Baraka Lebanon increased its total assets in 2012 by 25% to $301 million, as total financings and investments grew by a remarkable 45% to $198 million, with the Murabaha business being to the fore with a growth rate of 88%. The Mudaraba portfolio also expanded, as did non-trading investments. The increase was funded by a 25% increase in customer deposits including equity of IAH, of which the most important component was the equity of IAH which rose by 40% to reach $197 million. The result of this expansion was apparent in the bank's earnings, as all sectors rose. Total income from joint financings and investments rose by 57% to $13 million and, after accounting to the IAH for their share (which rose in line with the total), the bank's share including that as Mudarib was 84% higher at $7 million. With the addition of its income from its own sales and investments, fees and commissions and other operating income, its total operating income was $10 million, 61% higher than in 2011. As operating expenses were only 13% higher than the previous year at $9 million, the bank achieved an operating profit – compared with an operating loss in 2011 and in each of the earlier years - of $1 million which, after the application of provisions, resulted in a small net profit.

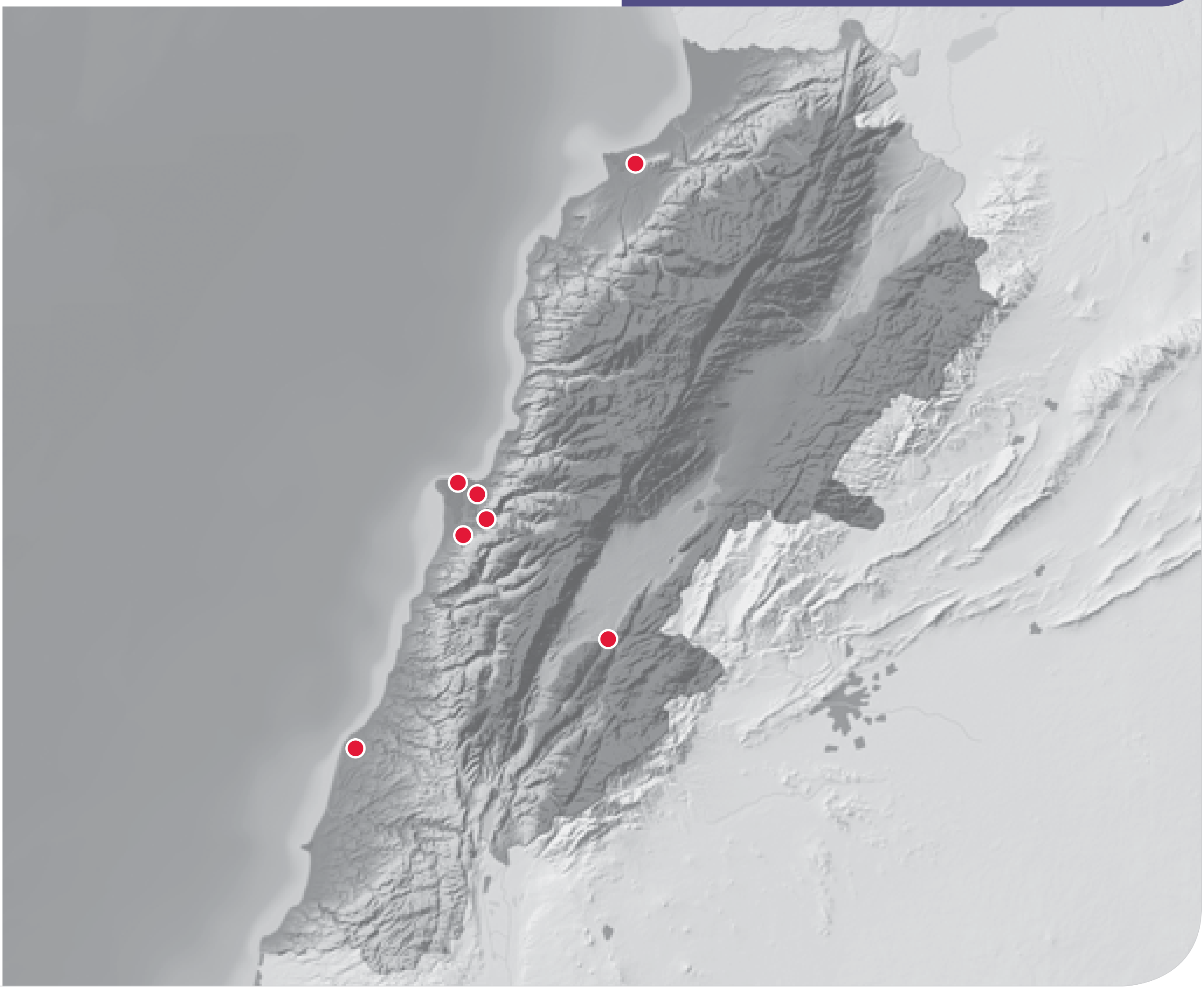
Al Baraka Lebanon introduced 9 new facilities and services during the year. These included a facility to finance dentists' purchases of dental equipment, Al Baraka Zafaf, for the financing of wedding expenses with additional free gifts, wedding list account, etc., Al Baraka Emtiyaz account, which for a monthly fee enables account holders to access a range of services with no extra charge, Hajj and Umrah insurance and Internet and SMS services. These new products and services were added to the existing repertoire of facilities to finance residential housing and car purchases, school and university fees, Hajj and Umrah travel costs, a wide variety of current and investment accounts and several different credit, debit and charge cards. In 2012 it plans to introduce mobile banking and new ATM and online banking services. To its existing network of 7 branches and 9 ATMs, it plans to gradually add to reach 11 by the year 2017. It will also be increasing the number of ATMs available to the public, including some at sites where it has no branch representation.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK LEBANON S.A.L.

Al Baraka Bank Lebanon S.A.L. was founded in 1991 and operated under a commercial banking licence until 2004 when an Islamic Banking Law was instituted and the Bank obtained an Islamic banking licence. Its activities comprise retail and commercial banking in accordance with Islamic Shari'a principles. The Bank operates 7 branches in various Lebanese cities.

Unit Head:	Mr. Mutasim Mahmassani
Title:	Board Member & General Manager
Address:	Center Verdun 2000, 2nd floor Rashid Karameh Str., Vardun P.O. Box 113 5683 Beirut Lebanon
Tel:	+9611 808008
Fax:	+9611 806499
	al-baraka.com



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANK SUDAN
Founded 1984

Sudan's budget faced significant challenges during the year. The economy contracted by an estimated 11.2%, compared with an estimated growth rate of 2.7% for 2011 (6 months as the original Sudan and 6 months excluding the old south), as the anticipated levies for the transportation of South Sudan's oil through Sudan to the port did not materialise.

Sudan's foreign exchange reserves fell markedly following the secession as 75% of its oil deposits and much of its production facilities were transferred to South Sudan, sharply reducing its oil exports. At the same time, import costs continued to rise. The resultant decline in foreign exchange reserves, exacerbated by increased imports costs, in turn led to the Central Bank being forced to devalue the Sudan Pound by 50% half way through the year. As a consequence, import prices soared even higher and the rate of inflation rose to 44.4% for 2012. In response the Central Bank increased the banks' reserve ratio from 13% to 18%. The government instituted a 3-year recovery programme to reduce government spending and implement an import substitution scheme. Efforts are now focused on developing the country's gold reserves, the first step being the opening during the year of a new gold refinery with a 328 tonne annual capacity.

Negotiations between the leaders of Sudan and South Sudan eventually got under way and have recently resulted in the signing of a joint cooperation agreement addressing security issues, oil transit fees – the settlement anticipates annual fees of an estimated $2.4 billion - and encouraging cross border trade between the two countries.

Perhaps as a consequence of the uncertain economic climate, Al Baraka Sudan's customer deposits soared by 52% to SP1.05 billion, with current and other accounts increasing by 44% and equity of IAH by 84%. However, due to the devaluation of the Sudan Pound, this expansion of the liabilities base was actually reversed in US dollar terms, so customer deposits, fell in those terms by an aggregate of 32% to $175 million. The bank's assets likewise expanded in local currency terms, with total assets rising by 58% to SP1.48 billion. This increase was reflected in a significant expansion of the Murabaha book, with receivables rising by 118% to SP399 million, while the Mudaraba and Musharaka portfolios rose significantly to reach SP106 million. The bank increased its cash and bank balances by 104% to SP504 million. In US dollar terms, however, this progress was transformed into a 29% decrease in total assets, from $351 million to $248 million, with proportionate devaluation of the underlying assets.

Similar circumstances prevailed, but to a lesser extent, in the income statement. Al Baraka Sudan's total income from joint financings and investments rose significantly in Sudan Pound terms but fell by 12% in US dollars, ending the year at $21 million. After accounting to the IAH the bank's share including that as Mudarib was $17 million, again 12% below 2011. After including its income from investments, Mudarib share from the off-balance sheet equity of IAH, fees and commissions and other operating income, it reported a total operating income of $26 million, compared with $30 million the year before. Net of operating expense, which at $14 million compared favourably with 2011's $20 million, the net operating income was 23% higher at $12 million which, after allocating for substantially increased provisions and taxation, resulted in a net profit of $5 million, 34% below the $7 million earned in 2011.

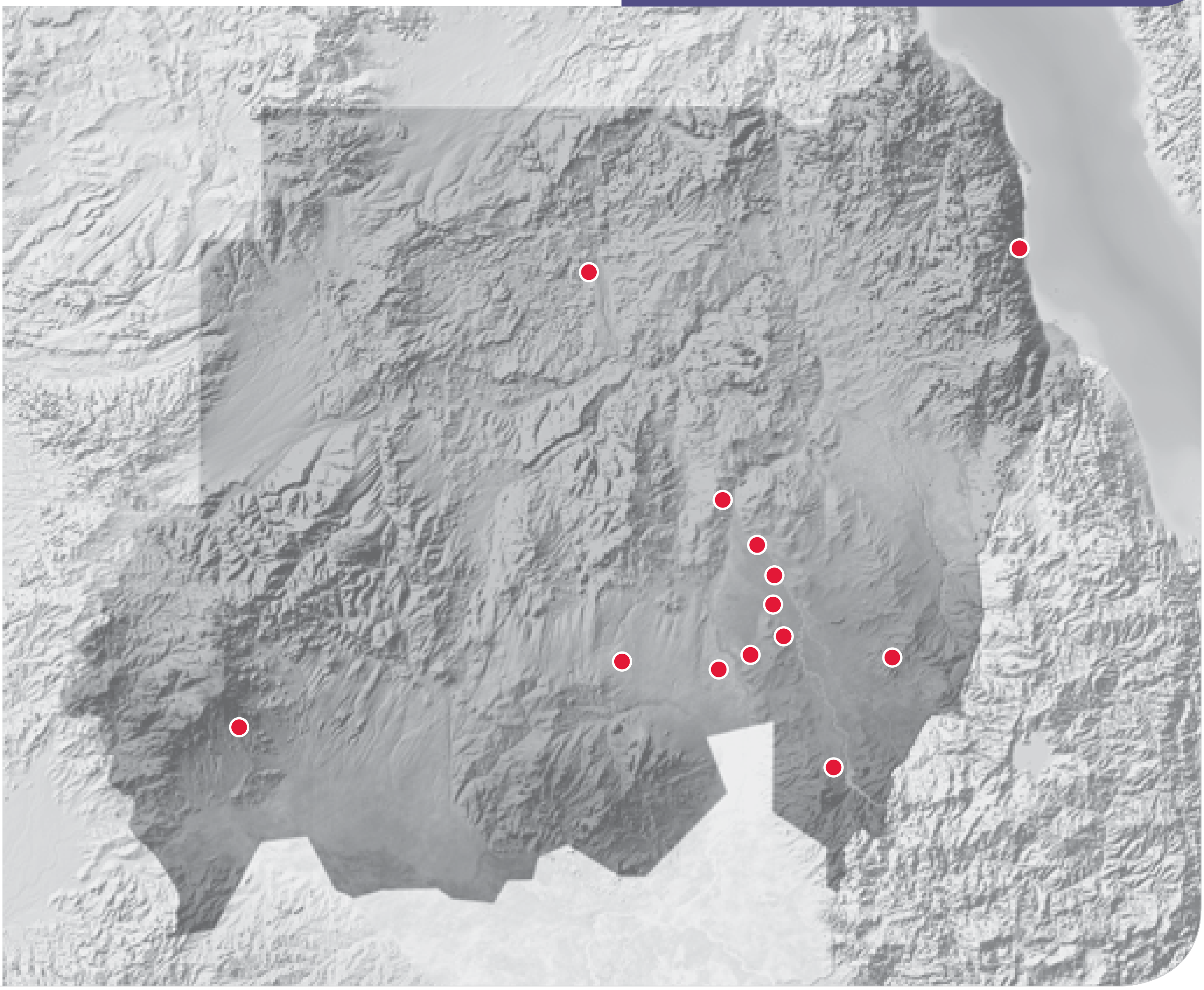
Al Baraka Sudan's branch network was unchanged at 25 branches at the end of the year, as was the ATM network of 35. Under its rolling 5-year strategic expansion plan it intends to increase the branch network by 6 to 31 by 2017, with 2 new branches planned for 2013. The year saw the launch by the bank of a new Call Centre and its Internet banking service, in addition to an SMS alert service, adding to its extensive range of financing, savings and Taqseet (goods purchase with flexible repayment) products. In regard to microfinance facilities for SMEs, developed in response to the Central Bank's requirement that a minimum of 12% of its total financings must be directed to SMEs, staff are being given specialist training in the bank's microfinance facility product so that it can be rolled out to more of its branches. Its ATM services were extended to permit customers to pay their electricity bills direct from the machine. It also expanded its existing mortgage product designed for customers working abroad. In 2013 it will be activating its range of Takaful insurance products, in addition to introducing mobile banking services.

(All figures in US Dollars unless otherwise stated)

AL BARAKA BANK SUDAN

Al Baraka Bank Sudan was established in 1984 and its activities comprise retail, corporate, commercial and investment banking. The bank operates 25 branches.

Unit Head:	Mr. Abdulla Khairy Hamid
Title:	General Manager
Address:	Al Baraka Tower P.O. Box 3583 Qasr ST Khartoum Sudan
Tel:	+249187 112 000
Fax:	+249183 788 585
	albaraka.com.sd



PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

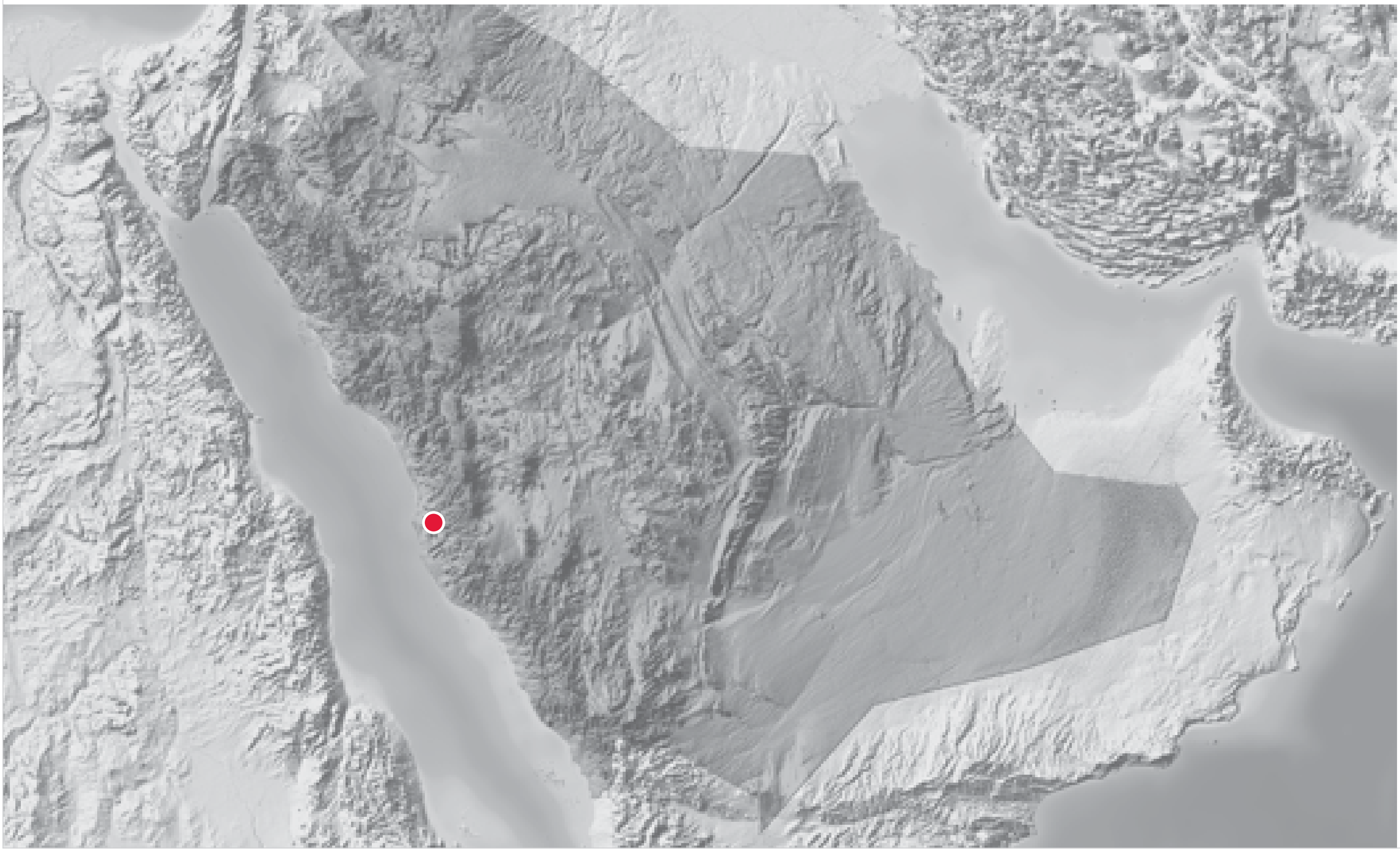
ITQAN CAPITAL
Founded 2007

Itqan Capital is a Saudi Arabia based investment company licensed by the Capital Market Authority, engaged in asset and portfolio management, principal investment, debt and equity arrangement, Itqan Capital aspires to be the Kingdom's pre-eminent provider of investment offering to pension funds, foundations, charities, endowments, private and public companies, high net worth individuals and family offices.

In 2012, ABG acquired 60% stake in Itqan Capital which is considered as strategically important to the Group as it gives the Group access to the extensive base of investors in Saudi Arabia and the opportunity to introduce them to the wide range of Shari'a compliant products that have been developed by the Group over the years. With Saudi Arabia being the largest Arab economy, with strong fundamentals and a stable financial and investment environment, the acquisition reflects the Group's strategy to enter key regional markets.

As at 31 December 2012 Itqan Capital's total assets were SAR65 million or $17 million, with total investments of SAR46 million ($12 million) and owners' equity of SAR59 million ($16 million).

Unit Head:	Mr. Adil S. Dahlawi
Title:	MD & CEO
Address:	Al Shatei Center, Al Malik Road P.O. Box 8021 Jeddah 21482 Kingdom of Saudi Arabia
Tel:	+966 2 234 7000
Fax:	+966 2 234 7222
	itqancapital.com



(All figures in US Dollars unless otherwise stated)

AL BARAKA BANKING GROUP REPRESENTATIVE OFFICE, INDONESIA

Founded 2008

In 2012 Indonesia's economy grew by an estimated 6.2%, slightly below 2011's 6.5%. The current account however swung into deficit of -2.4% of GDP from a surplus of 0.4% of GDP the year before. The rate of inflation improved to 4.3% from 5.5%. The Indonesian government's policy is focused on the need to boost economic growth and investment and on job creation. It operates a progressive taxation policy on personal incomes, starting at 10% with a top rate of 30%, a corporation rate of 28% and an 11% value added tax levied on goods and services combined with a special sales tax of up to 35% on luxury items.

The Indonesian government's policy in recent years has been one of encouragement of Islamic banking in the country, with a long term target of increasing Islamic banking assets to 5% of total banking assets. Islamic finance celebrated its 20th anniversary in Indonesia in 2011, but really began to expand from 2008, from which base it has shown strong growth. The 11 commercial Islamic banks and 23 other Islamic finance businesses had aggregate assets of $16.6 billion at the end of 2011, a remarkable 49% higher than at the end of 2010. Due to the favourable regulatory environment, the growing economy and the fact that Indonesia has the largest Muslim population in the world, the country therefore offers a very attractive destination for Islamic banks, including ABG.

ABG's representative office serves as a base for the Group to conduct research on local banks and their potential for acquisition and for assessing the business potential of the country from the Group's perspective. The representative office is also responsible for maintaining contact with regulators and major banking groups in Indonesia and for preserving the image and brand value of the Group. With trade flows between Indonesia and many of the countries where the Group operates growing rapidly, the Indonesia Representative Office pro-actively identifies business opportunities and generates leads that are directed towards ABG subsidiaries.

Unit Head:	Mr. Moesfian Mokhtar
Title:	Chief Representative
Address:	Ravindo Building, 10th Floor Jalan Kebon Sirih, No. 75 Jakarta Pusat 10340 Indonesia
Tel:	+62 21 316 1345
Fax:	+62 21 316 1074
	albaraka.com

Return to Contents

PRESIDENT & CHIEF EXECUTIVE'S REPORT
(CONTINUED)

AL BARAKA BANKING GROUP REPRESENTATIVE OFFICE, LIBYA

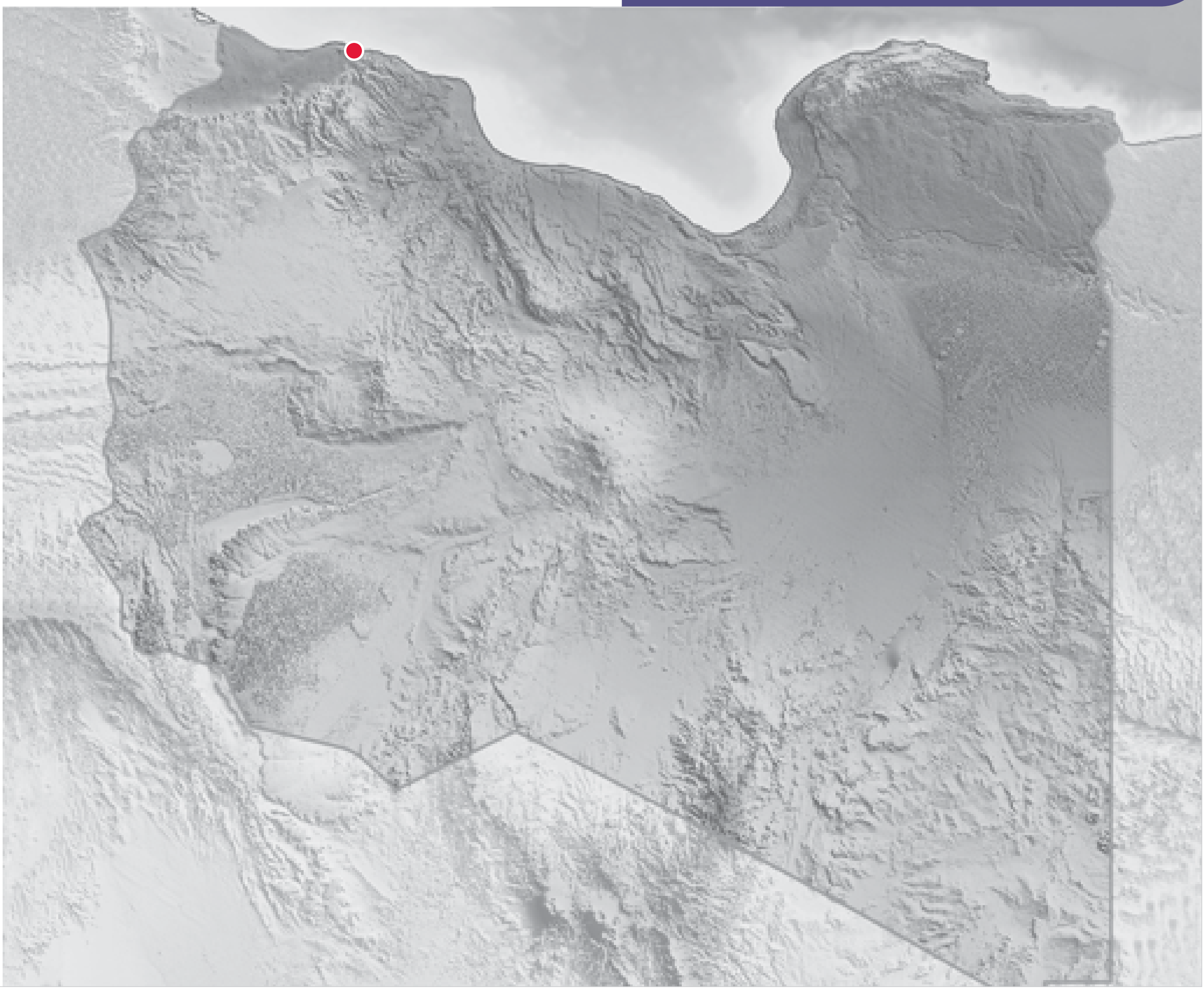
Founded 2011

It is estimated that Libya's trade surplus was some $35 billion in 2012, compared with only $5 billion in 2011, as oil facilities were quickly repaired and exports resumed in the wake of the revolution. Reconstruction efforts, combined with new development projects, should impact on economic performance, with annual GDP growth henceforth of around10% being anticipated. Inflation is estimated at around 5% in 2012 as a result of strong money supply growth, but should begin to fall from 2013.

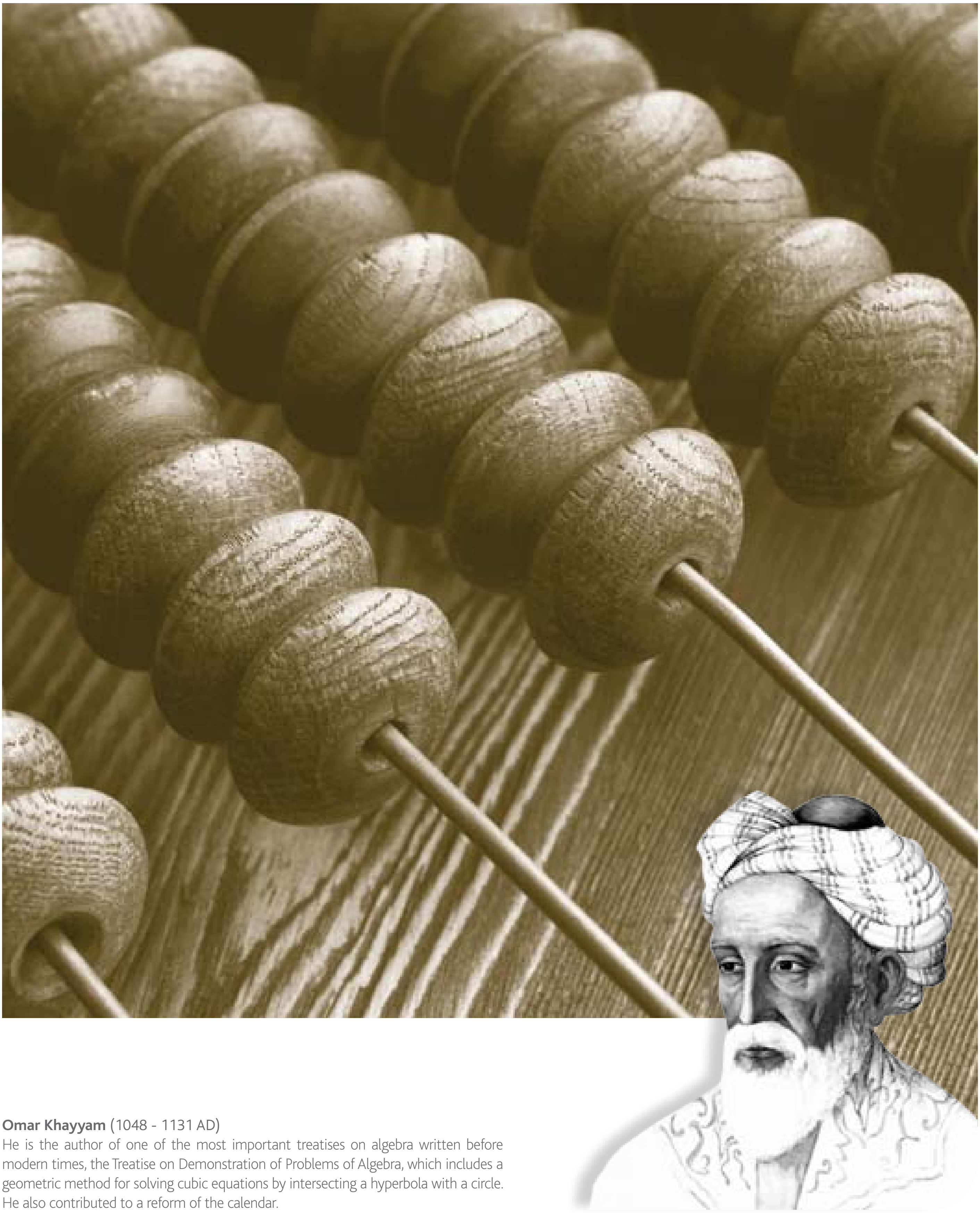
Prior to the revolution, ABG had been at an advanced stage in its application to establish a representative office in Libya, but this was put on hold until the country returned to stability. ABG fully intends to pursue this strategy and to participate in the Libyan people's future development and prosperity in the fullness of time.

Unit Head:	Mr. Mohamed ElKhazmi *
Title:	Chief Representative
Address:	Tripoli Tower, Tower 1 14th Floor, Office No. 144 P.O. Box 93271 Tripoli Libya
Tel:	+218 (21) 336 2310 +218 (21) 336 2311
Fax:	+218 (21) 336 2312
	albaraka.com

* With effect from 2nd Jan 2013



(All figures in US Dollars unless otherwise stated)



Omar Khayyam (1048 - 1131 AD)
He is the author of one of the most important treatises on algebra written before modern times, the Treatise on Demonstration of Problems of Algebra, which includes a geometric method for solving cubic equations by intersecting a hyperbola with a circle. He also contributed to a reform of the calendar.

CORPORATE GOVERNANCE

From its formation in 2002 to bring together what was then 10 individual banks, sharing common ownership and ethical vision but separate in all other respects, under a single management group, ABG has viewed effective corporate governance and risk management as the essential foundation stones for the management of the Group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. Adoption and maintenance of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation, providing an overarching governing structure under which each step in decision-making and devolvement of responsibility is identified and the management of the functions, roles and responsibilities divided between the Board of Directors and Executive Management, officers and staff of the organisation.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of operations and making critical business decisions and for building long-term shareholder value. The Board ensures that the Group manages risk effectively, through approving and monitoring the Group's risk appetite and identifying and guarding against the longer term strategic threats to the business.

Among other responsibilities the Board is responsible for setting and reviewing, not less frequently than annually, the Group's overall strategy and for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities and monitoring the effectiveness of Executive Management including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets and reviewing performance against those budgets and key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment i.e. that compliance, risk management and financial control and reporting functions are well resourced and structured;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its units, periodically reviewing internal control procedures and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- ensuring that the Group's operations are supported by a reliable, sufficient and well integrated information system;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and/or its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is at all times in full compliance therewith;
- ensuring that the control environment maintains necessary client confidentiality and that clients' rights and assets are properly safeguarded;
- convening and preparing the agenda for shareholder meetings;
- ensuring the equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans; assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness and for defining and enforcing standards of accountability that enable Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all laws and regulations, in particular those enunciated by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive, which responsibility is carried out through a dedicated Compliance Department, whose mandate covers all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable standards; disseminating compliance policies and guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and implementing operational controls, Know Your Customer (KYC) and other anti-money laundering (AML) methodologies. ABG is in the continuous process of enhancing its compliance framework and that of each of its subsidiaries.

In October 2010 the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high level controls and policies. ABG conducts annual detailed internal assessments to ensure compliance with these requirements and has set specific milestones for implementation of any identified shortfalls: the CBB, ABG's shareholders, the Board of Directors and Executive Management have all been fully apprised of any such shortfalls and the milestones set. Accordingly, ABG has applied for and received the consent of the CBB to the appointment of the Chairman of the Board of Directors notwithstanding that he is not an independent director as defined in the CBB Rulebook. The Board Audit and Governance Committee members possess adequate awareness of Shari'a principles in relation to Islamic banking transactions and are therefore competent to oversee the audit of Shari'a-related governance issues. ABG ensures on a continuous basis that the minority shareholders of the Group are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and maintain informal contact between themselves in between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of Executive Management at Board meetings if appropriate regarding matters which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association the Board of Directors shall consist of not less than five and not more than fifteen members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the

CORPORATE GOVERNANCE
(CONTINUED)

resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of ABG's Articles of Association;
- abuse by the individual of his/her position as director;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board; or
- upon the individual's formal resignation from the Board following reasonable prior notice; or occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors whose three year term is due to expire, such nominations must be submitted to the Chairman of the Board within the time frame provided in the announcement. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the Commercial Companies Law and ABG's Articles of Association.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who are individually and collectively responsible for performing the responsibilities of the Board and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive all Directors are non-executive and fully independent of management and are individually responsible for scrutinising and challenging management decision making and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors and the President & Chief Executive has separate, clearly defined responsibilities. The Board and its Committees are regularly assessed with respect to their size and composition, while individual Directors are assessed annually for their effectiveness, contribution and independence in light of interests disclosed and conduct. The independence or non-independence of directors is reviewed annually.

ABG does not provide for any performance-linked stock incentives for the Board or Executive Management. All directors are remunerated solely by means of an annual retainer fee and sitting fees paid for meeting attended, in addition to reimbursement of travel expenses as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group; details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of six independent directors as defined in the CBB Rulebook.

In 2012 the members of the Board were:

Non-Executive Directors
1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Yousef Ali Fadil bin Fadil
5. Mr. Mohyedin Saleh Kamel
6. Mr. Fahad Abdullah A. Al Rajhi

Independent Directors
1. Mr. Abdulla A. Saudi – Vice Chairman
2. Mr. Saleh Al Yousef
3. Dr. Anwar Ibrahim
4. Mr. Ebrahim Fayez Al Shamsi
5. Mr. Jamal bin Ghalaita
6. Dr. Bassem Awadallah

Executive Director
Mr. Adnan Ahmed Yousif – President & Chief Executive

All current Directors were elected for a 3-year term on 23 March, 2011.

BOARD 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 Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive, Mr. Abdul Elah Sabbahi and Mr. Yousef Ali Fadil bin Fadil. The Board Executive Committee comprises a minimum of four Directors and meets at least two times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility

to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Ebrahim Fayez Al Shamsi and its other members are Mr. Jamal bin Ghalaita and Mr. Yousef Ali Fadil bin Fadil. The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings, and recommendation to the Board of the level of remuneration of the Executive Management members and other ABG employees under an approved performance-linked incentive structure. The Committee also performs the role of a Nominations Committee as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. The 2012 evaluation results were entirely satisfactory. When an issue related to the personal interest of a Director was discussed in the Committee, the interested Director withdrew himself from the meeting and abstained from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the chief executive officer, the chief financial officer, the Board Secretary and other executive officers considered appropriate (with the exception of the Head of the Internal Audit Department) and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors and for conducting seminars and other training programmes from time to time for Members of the Board.

Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Saleh Al Yousef. Other members are Dr. Anwar Ibrahim, Mr. Ebrahim Fayez Al Shamsi and Dr. Bassem Awadallah. The Committee is governed by a formal written charter adopted by it and 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 Committee and its Chairman throughout the year.

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 Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Abdul Elah Sabbahi, with its other members being Mr. Jamal bin Ghalaita, Mr. Fahad A. Al Rajhi and Mr. Mohyedin Saleh Kamel. Membership of the Committee comprises a minimum of four Directors, all of whom must be non-executive directors. The Board Risk Committee meets formally at least twice a year but will meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President & Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings.

The Group's risk appetite is determined by the Board based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

Board Social Responsibility Committee

The Board Social Responsibility Committee is chaired by Dr. Bassem Awadallah and other members are Mr. Adnan Ahmed Yousif, Mr. Yousif Ali Fadil Bin Fadil, and Mr. Fahad Abdulla Al-Rajhi. The Committee leads the Al Baraka Social Responsibility

CORPORATE GOVERNANCE
(CONTINUED)

Programme. The Committee will oversee the formulation of policies and strategies by the Executive Management and the Management Committee of Social Responsibility in making ABG and all its subsidiaries a model Islamic banking group that offers banking and financial services in a socially responsible manner and in conformity with the objectives of Shari'a.

The Committee will also seek to rekindle the spirit of Islamic finance that enjoins social responsibility as a principal feature of Islamic banking and finance. In this way, the Committee will demonstrate its commitment to the inherent social responsibility spirit of Islamic finance by guiding the Executive Management to achieve various quarterly and annual targets.

The Committee comprises four Board Members, is chaired by an Independent Director. All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2012

Name of Board / Committees	Members' Name	No. of meetings in 2012	Dates of the meetings	No. of meetings attended
Board of Directors	Sh. Saleh Abdullah Kamel	7		6
	Mr. Abdullah A. Saudi			7
	Mr. Abdullah Saleh Kamel			6
	Mr. Saleh Al Yousef		23/02/2012	5
	Mr. Adnan Ahmed Yousif		21/03/2012	7
	Dr. Anwar Ibrahim		09/05/2012	3
	Mr. Abdul Elah Sabbahi		25/07/2012	7
	Mr. Ebrahim Fayez Al Shamsi		12/08/2012	7
	Mr. Yousef Ali Fadil Bin Fadil		11/11/2012	7
	Mr. Jamal bin Ghalaita		27/12/2012	7
	Dr. Bassem Awadallah			7
	Mr. Mohyedin Saleh Kamel			6
	Mr. Fahad Abdulla A. Al Rajhi			5
Board Executive Committee	Mr. Abdullah Saleh Kamel	3	30/01/2012	3
	Mr. Abdul Elah Sabbahi		06/05/2012	3
	Mr. Yousef Ali Fadil Bin Fadil		08/12/2012	3
	Mr. Adnan Ahmed Yousif			3
Board Audit and Governance Committee	Mr. Saleh Al Yousef	5	23/02/2012	4
	Dr. Anwar Ibrahim		09/05/2012	2
	Mr. Ebrahim Fayez Al Shamsi		11/08/2012	5
	Dr. Bassem Awadallah		11/11/2012	5
			25/12/2012	
Board Affairs and Remuneration Committee	Mr. Ebrahim Fayez Al Shamsi	4	12/01/2012	4
	Mr. Jamal bin Ghalaita		15/04/2012	2
	Mr. Yousef Ali Fadil Bin Fadil		19/07/2012	4
			07/10/2012	
Board Risk Committee	Mr. Abdul Elah Sabbahi	3		3
	Mr. Jamal bin Ghalaita		12/01/2012	1
	Mr. Fahad Abdulla A. Al Rajhi		19/07/2012	2
	Mr. Mohyedin Saleh Kamel		10/11/2012	2
Board Social Responsibility Committee	Dr. Bassem Awadallah	2		2
	Mr. Adnan Ahmed Yousif		21/03/2012	2
	Mr. Yousef Ali Fadil Bin Fadil		11/11/2012	2
	Mr. Fahad Abdulla A. Al Rajhi			2

SHARI'A SUPERVISORY BOARD

ABG's Shari'a Supervisory Board (SSB) is elected by the shareholders at Annual General Meeting upon recommendation by the Board of Directors. The SSB is actively involved in the development of the Group's products and services and certifies or oversees the certification by individual subsidiaries' SSBs of every product and service accordingly as complying with the standards and principles of Shari'a.

The SSB operates within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the SSB has full access to the Board, Executive Management and management and officers of the subsidiaries. In addition to reviewing and advising on Shari'a compliance of all products and services, it audits the operations of the Group from a Shari'a perspective.

The SSB meets at least 6 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management Team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Shari'a Supervisory Board are carried out, providing the Board of Directors with analyses, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. In meeting these responsibilities, Executive Management has established a system for filtering down to Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures.

As at the end of 2012, the Executive Management Team consisted of the President & Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury, Investments and Financial Institutions, Operations and Administration and Legal Affairs.

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 & Chief Executive with the remaining membership comprising the Heads of Strategic Planning, Operations and Administration, Credit and Risk Management and Treasury, Investments and Financial Institutions, with the Heads of Financial Control, Legal & Compliance and Internal Audit as observer-members.

Asset and Liability Committee

The Asset and Liability Committee'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 ABG and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Heads of Treasury, Investments and Financial Institutions, 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 (Al Baraka Bahrain).

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 & 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 to 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 & Chief Executive with remaining membership comprising the Heads of Credit and Risk Management, Operations and Administration and Financial Control, 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

CORPORATE GOVERNANCE
(CONTINUED)

a view to effecting standardisation in information and operation management. Membership of the Committee is comprised of the Heads of Operations and Administration, Financial Control, Strategic Planning and Credit and Risk Management, together with senior support nominees drawn from the Group.

Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. Membership of the Committee is comprised of the Heads of Operations and Administration, Strategic Planning and Financial Control.

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB) and is aimed at ensuring the maintenance of a fair, orderly and transparent securities market and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and other similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities and to ensure that Group 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 & Chief Executive and the other members are the Heads of Internal Audit, Legal Affairs, Operations and Administration and Investors' Relations.

Other committees

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

COMPLIANCE, POLICIES AND PROCEDURES

Group Disclosure Policy

The Group communication strategy aims to help achieve the Group's objective of keeping the market informed of material information. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, Part A and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of the Group and ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's shares or in the decision of a prudent investor to sell, buy or hold the Group's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. 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 ABG's subsidiaries.

The Group is committed to complying with the CBB's rules and regulations with regard to the dissemination of the Group's financial information and statements, on a quarterly, semi-annual and annual basis and as applicable to any ad hoc information requirement of the CBB. As a listed company on the BB and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective directives and rulebooks in this respect.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information or when a decision to implement a material change is made by the Board of Directors or Executive Management of the Group.

As a listed company, ABG adheres to a strict policy which delegates to certain specific individuals the authority to issue press releases or announce to the public information, financial or non-financial, on the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice-Chairman of the Board of Directors
- President & Chief Executive

In the event that any of the abovementioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Financial Control with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group mails its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis, following which the Group makes this information available on its website.

Press releases are posted on the Group's website and published in a minimum of one local newspaper either in Arabic or

English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's Website or in local newspapers.

The Group is committed to adhering to all the requirements outlined in the CBB's Rulebook, Public Disclosure Requirements section.

In order for the Group to be in full compliance with the CBB disclosure requirements as specified in the abovementioned Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements and its annual audited financial statements.

The Group has in place effective procedures for dealing with complaints received from its shareholders and stakeholders. Different channels have been established to enable communication with investors including through the offices of the Registrar, an online query centre on the Group's website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least three years' financial information on its website.

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 and corporate governance.

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

The CBB 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 8% on a single bank basis and 12% on a consolidated basis, which requirement exceeds the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. A new Capital Accord (Basel II) was subsequently announced by the Basel Committee to replace the 1988 Accord, 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 were given wider discretion to increase or decrease capital requirements for banks according to their individual circumstances. The new rules also required greater transparency of published information relating to bank risk management. In 2010 global banking regulators agreed on a further package, known as Basel III, which set a new key capital ratio of tier one capital to assets of 4.5% which, together with a buffer of a further 2.5%, effectively established a minimum tier one capital ratio of 7.0%, below which banks face restrictions on their dividend payments and discretionary bonuses. As a second measure under Basel III, a new 5.0% minimum liquidity coverage ratio has been introduced recently. These measures are to be gradually introduced over a period extended to 2019.

The Group took all necessary steps to achieve in time the required degree of sophistication in risk assessment to enable it to comply with the requirements of Basel II as stipulated by the CBB. It has adopted the Basic Indicator Approach for operational risk and the Standardized Approach for credit and market risk under the CBB's rule book and the Group has been adhering to the requirement of the CBB under Basel II since July 2007. It is also set to be able to comply with the Basel III requirements when they are fully introduced.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, ABG has appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice. The Compliance Officer's position is currently held by a senior officer in the Credit and Risk Management Department and during the year the resources devoted to managing compliance risks across the Group were strengthened.

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. Groupwide overall policies for Know Your Customer (KYC) and anti-money laundering (AML) at the Head Office level, complying with CBB regulations, have been disseminated to all subsidiaries for implementation and are being adhered to by them.

CORPORATE GOVERNANCE
(CONTINUED)

Financial Performance Monitoring

Executive 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, whereunder all subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with 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.

RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process. ABG's Head of Credit and Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the Basel II and, when applicable, Basel III requirements under the CBB rules. He is also responsible for introducing and implementing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing Group management with reports on the various risks.

Risk management is an integral part of the Group's decision-making process. The Board of Directors defines and sets the Group's overall levels of risk appetite, risk diversification and asset allocation strategies including the policies as regards related parties' transactions, their reporting and approval. The Management Risk Committee and other executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors. Risk policies and processes to mitigate the risks are regularly reviewed.

The Group's risk management has the following objectives:

a. unified Groupwide risk management to enable the Group to calculate risk adjusted return on capital;
b. inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Groupwide policies, processes and limits;
c. professionally qualified staff and ongoing credit training;
d. investing in technology and systems enabling 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; and
g. maintaining clear, well documented policies via a Group Risk Management Manual and Risk Management Manual in each of the subsidiaries, incorporating the uniform policies and procedures of the Group in addition to the local requirements.

Each of ABG's subsidiaries is managed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which reflect Groupwide policies and thus ensure that sound risk management is in place in all ABG's subsidiaries.

Following implementation during 2010 of a consolidating system for the calculation of capital adequacy taking into account credit, market and operational risk, all in accordance with Basel II requirements, the required data is now retrievable automatically at Head Office. In addition, during 2012, ABG embarked on implementing an operational risk management system for all its Units and this is expected to be completed during 2013.

The Group has continued to make determined efforts to maintain the momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

1. Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about ongoing improvement in the Group's NPL ratio and provisioning coverage.
2. All subsidiaries ensure that their non-performing loans provisioning policies are in line with both Group policies and local regulatory requirements.
3. Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments through hiring and training of credit and risk management staff as an ongoing priority in each unit.
4. Each subsidiary has its own approved Credit and Risk Management Manual, covering credit, liquidity, market, operational, profit rate and reputation risk, which accords with Group policies and procedures.

5. All subsidiaries submit timely quarterly risk management reports to Head Office which fully meet regulatory requirements; reports continue to be expanded to provide Head Office with increasingly comprehensive data to meet its internal requirements.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to Group policy as regards all the major categories of risk faced by the Group in carrying out its business. These major risks are Credit, Liquidity, Market (including Equity, Profit Rate and Foreign Exchange risk), Operational and Shari'a Compliance risks, each of which is discussed below in turn.

Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital financing transactions (Salam, Istisna'a or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures in covering case by case approval of related party transactions.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions and its restricted and unrestricted investment accounts, so as to ensure that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that there is no reliance on any one customer or small group of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective Central Bank equal to a percentage of its deposits as directed by that Central Bank – in most cases 20%. ABG additionally holds substantial liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders.

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2012 are detailed in Note 26 (d) to the Financial Statements.

CORPORATE GOVERNANCE
(CONTINUED)

Operational Risk
Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Operations risk is managed through internal procedures and monitoring mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people and appropriate infrastructure, controls and systems are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with a Group subsidiary's own funds, the respective Group subsidiary ensures that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures, and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions. As the Group is rapidly updating its technology base, replacing its legacy systems with new, modern hardware and systems, it is now increasingly possible to integrate the required control functions into the new processing systems.

Shari'a Compliance Risk
Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and in this respect is therefore akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with the requirements of laws and regulations. The Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

CAPITAL MANAGEMENT/CAPITAL ADEQUACY
Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management therefore addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2012 was 18.47%, comfortably above the CBB's minimum regulatory requirement of 12%.

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio in respect of that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

INFORMATION TECHNOLOGY
The role of the Head Office IT Steering Committee is to govern and support IT strategies, projects and initiatives across all ABG subsidiaries and to ensure that they are in line with the Group's

overall strategic aims as well as each subsidiary's own strategies. The Group's short, medium and long term IT strategies are now well established, standardised around a few carefully chosen core banking solutions for Groupwide implementation. The final stage of the Group's IT strategy and governance framework, developed in collaboration with the subsidiaries and with the assistance of a leading advisory firm, is now set for implementation.

ABG's initial web-based financial consolidation and reporting application is now also used as a corporate performance measurement solution, utilising Key Performance Indicators (KPI) based on Group strategic objectives. It is used in setting performance benchmarks for each subsidiary and for monitoring their individual performances on a continuous basis and will gradually be integrated into all core system applications implemented throughout the Group.

The monthly, quarterly and annual consolidations, currently performed through the financial consolidation module, enables the collection, processing, reporting and analyzing of data in multiple currencies as well as reporting on the effects of currency fluctuations. ABG's Financial Control Department can now consolidate data from many business perspectives, for instance at the subsidiary level, by geographical region or Islamic product line, as well as by multiple structure versions such as year to date, current year's results, previous year's results and so on.

Following an intensive evaluation of the Group's requirements for risk management systems from both Islamic and regulatory perspectives, the Risk Management team selected the most suitable system, which carried with it the additional weight that the product comes highly recommended by several other Islamic institutions using it, both in the Kingdom of Bahrain and abroad. The modules relating to operational risk management and capital adequacy calculation based on credit, market and operational risk are now live at the Head Office and at Al Baraka Islamic Bank Bahrain, with implementation planned at the remaining subsidiaries throughout 2013 and beyond.

Careful selection by the IT Steering Committee of an approved list of core banking system solutions was followed by each subsidiary arriving at its own system choice to suit its individual requirements.

Five subsidiaries – Al Baraka Bahrain, Al Baraka South Africa, Al Baraka Lebanon, Al Baraka Pakistan and Al Baraka Egypt – opted for the Equation core banking system from Misys. Al Baraka Bahrain achieved full implementation in 2009 followed by Al Baraka Lebanon and Al Baraka South Africa in 2011. Al Baraka Egypt went live with Equation in Q3 2012 and Al Baraka Pakistan anticipates going live during 2013.

Implementation of Al Baraka Jordan's choice of the ICBS (NIBRAS) Banking System as its core banking system was achieved in 2011 and full project completion was achieved in Q4 2012. Al Baraka Algeria and Al Baraka Sudan, who selected iMAL from Path Solutions as their new core banking system, have both gone live with the application and expect to achieve project sign off for all other optional modules by Q1 2013.

Al Baraka Tunisia meanwhile has successfully upgraded its existing core banking system (TEMENOS-T24), which now incorporates *e*-banking services. Al Baraka Turkey, who employed an in-house solution some time ago which is working well, is however currently defining a strategy to move to a new core application in the near future as part of an expansive "Bank Transformation" project. Finally, Al Baraka Syria, who selected iMAL, has gone live with the application and the project is in the final stage of implementation of optional modules with the first quarter 2013 targeted for final sign off.

In 2009 the Group IT Department launched a new initiative to achieve "Business Excellence through IT" in partnership with leading IT advisory firms. Important milestones have been achieved under this initiative, which has increased the value of IT to the business and the level of collaboration among Group subsidiaries. ABG IT has also focused on establishing a standardized global Disaster Recovery Plan (DRP) throughout the Group. Once the new core applications have been fully implemented at all ABG subsidiaries in 2013, and both a global DR Centre and local DR centers have been established, each subsidiary will be fully protected against any sudden, unexpected service loss.

CORPORATE SOCIAL RESPONSIBLITY

Social Responsibility

The success of the contemporary Islamic banking and finance movement owes much to the contribution and patronage of Shaikh Saleh Kamel, the founder of Al Baraka Banking Group. Although the Group is young as a single legal entity, its antecedents go back to the late 1960s, when Shaikh Kamel directed the devising of Islamic contracts for use in his business operations when dealing with conventional banks (there being no Islamic banks in existence at that time), which was his preferred route for doing business with them. This early insistence on strict adherence to fundamental Islamic principles was quickly overtaken by the next stage of development when, in the early 1970s, Shaikh Kamel oversaw the establishment across the Arab world of a string of Islamic financial institutions bearing the Al Baraka name. Today, Al Baraka Banking Group brings together under one unified grouping the accumulated experience of 11 such banks which have been delivering Islamic products and services for over three decades. We at ABG are proud to look back on this heritage, whilst keenly looking ahead to the next stage in our development, expanding into new regions and new markets, building an ever-widening and stronger customer base, all the time following the ideals of Islamic banking and finance.

From inception we at Al Baraka have, through our founding ethos, embodied the spirit of Social Responsibility in our corporate view, as encapsulated in:

...our ***Vision Statement:***

"We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community"

...our ***Mission Statement:***

"To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the mutual benefits with the customers, staff and shareholders who participate in our business success".

...and our central philosophy as embodied in the concept of ***Partnership***, under which we hold that our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff, leading to our promise:

"Your Partner Bank".

What is Social Responsibility?

Social Responsibility is, in essence, an approach towards all aspects of an organisation's business activities with the aim of meeting the needs of the organisation, its shareholders, employees and customers whilst sustaining the resources – human and natural – that will be needed over the long term. To paraphrase the Union of Arab Banks, it is "the way in which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the enterprise, create wealth and improve society".

Social Responsibility aims to create long-term economic growth through the careful management of natural resources (e.g. reduction of energy usage, waste management, etc.), development of human resources (through training, personal development and career and succession planning), and the general enhancement of the quality of life throughout society.

The concept of Social Responsibility fits easily with the ethics of Islam and, therefore, with Al Baraka's traditional principles, which can be stated as follows:

"As members of a banking group founded on Islamic principles and values, we at Al Baraka believe that we have a particular obligation to society, through patronage and sponsorship of educational and social projects, to enhance the living conditions and quality of life of needful individuals in the local communities of which we are part. In meeting this commitment to society we make all possible effort to apply one of the important philosophical pillars of Islamic banking: the concept of E'mar Al Ardh or construction, or development, of land, which means adding tangible value to assets (whether natural or human). Our philosophy, in essence, is that Allah grants mankind the capacity to inherit the land on this earth and therefore that mankind is not the owner of wealth but is entrusted with it. As the purpose of mankind is to construct, embellish and build on this earth, we are therefore ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah and, therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth. This concept has a direct relevance to the development of society and its social and economic progress and we seek to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large".

We consider the role of Social Responsibility in our organisation to be essential to the application of the principles derived from divine power and on which our business activities in all the countries in which we operate are based. All our subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services. These principles may be summarised as:

First: Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must invest in the production of, and trade in, useful and beneficial goods only. They therefore forbid investment in such activities as, for example, contribute to the production of alcoholic beverages, tobacco or weapons, or are associated in any way with gambling, pornography or the abuse of children, women and minorities, or any other morally questionable practices.

Second: All Islamic banks and financial institutions eschew the payment of interest in their relations with depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead ABG's banking subsidiaries, like all Islamic banks, accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realisation of their investments. Financing is provided to businesses in turn mainly on the basis of instalment sale, leasing or equity participation. In this way, they and their depositors share the financial risk with the entrepreneurs and together they reap the benefits of the investments.

The prohibition of interest is to be found in the Qur'an and is fundamental to the ethical standards and core values laid out therein. Al Baraka's subsidiaries, as Islamic banks, firmly adhere to these core values by disallowing the charging or paying of interest, an essential difference between Islamic and conventional banks. Yet, customers of Islamic banks and other financial institutions generally share a similar experience to that of customers of conventional banks - who share profit with their depositors. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs in which both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.

Third: All contracts entered into by Al Baraka's banking subsidiaries, and all their relations with businesses and depositors, must comply with the ethical standards of the Shari'a.

The Al Baraka Social Responsibility Programme

To these ends, we have established the "***Al Baraka Social Responsibility Programme***", the first such programme to be introduced by any Islamic banking and financial services institution.

The scope of the Al Baraka Social Responsibility Programme encompasses the following initial ad minima features of its business model:

1. Assessing the social impact of ABG's business at the local and transactional levels.
2. Investing in and supporting socially responsible businesses.
3. Supervising and monitoring development in the Al Baraka Microfinance programme.
4. Supporting the local economies.
5. Supporting academic institutions and centres of excellence.
6. Promoting Islamic classical arts and literature.
7. Promoting Islamic banking and finance scholarly works.
8. Investing in people.
9. Nurturing and encouraging local talent.
10. Promoting programmes that protect the environment by adopting various conservation strategies, such as reduction of paper usage, energy and water conservation.
11. Taking steps to develop and enhance Al Baraka's social responsibility reputation.

A Board Social Responsibility Committee has been formed, to oversee the activities of the Management Social Responsibility Committee, whose role inter alia is to:

1. Keep the Al Baraka Social Responsibility Programme current with the most recent international research and popular strategies to enhance the objectives of Shari'a.
2. Manage and supervise the Groupwide implementation of the Programme.
3. Ensure that the Programme remains one of the leading programmes within the Islamic banking and finance industry in general, by developing new research in Shari'a and economic analyses of the subject.
4. Provide appropriate guidance for the implementation of the Programme.
5. Compile, consolidate and publish annual and other periodic social responsibility reports.
6. Develop and update procedures that may result in enhancing the adequacy and effectiveness of the Programme at Group level.
7. Exercise all necessary powers in relation to the Programme to achieve the objectives and remain consistent with the rationale of the Committee.
8. Coordinate with other local and international social responsibility programmes.

As mentioned above, a detailed report of the Group's activities and progress in the area of Social Responsibility over the past year will be available annually. This report may be found on the ABG website. It is also intended that each of ABG's subsidiaries will produce an annual report which will be available on their individual websites.

UNIFIED SHARI'A SUPERVISORY BOARD REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

TO: AL BARAKA BANKING GROUP SHAREHOLDERS

May peace and God's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

First:

We have conducted five meetings during 2012, two of which were conducted at the premises of Al Baraka Banking Group's subsidiaries in which we met the subsidiaries' Shari'a Board members, Shari'a auditors and employees and conducted several small seminars and replied to many of the employees and customers' inquiries. In addition, we have made sure that the operations of the transactions are conducted in compliance with Shari'a rules and principles.

The other three meetings were conducted at our premises in Jeddah, in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2012 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the executive committee of the Unified Shari'a Supervisory Board conducted several meetings in which a number of commercial contracts and agreements signed by the Financial Institutions Department in the Group with the subsidiaries and other financial institutions and organizations has been reviewed.

Second:

We have reviewed the principles applied by the Group and reviewed the 2012 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2012 and Statement of Income and their notes. We have queried from some of the Technicals on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium 1/31 and by the Unified Shari'a Supervisory Board.

Third:

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2012 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved

by the Unified Shari'a Supervisory Board. Since the Group and the Units are not empowered to pay Zakah, shareholders should pay their share of Zakah. The Zakah per share is 1.04 US cents. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become a debt until the liquidity become available.

Praise be to God

Issued on 4 Rabi'a Al Thani 1434 H, corresponding to 14 February 2013 AD.

Shaikh Dr. Abdul Sattar Abu Ghudah
Chairman

Shaikh Abdulla bin Sulieman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

ZAKAH CALCULATION FOR THE YEAR ENDED 31 DECEMBER 2012

	US$ '000
Equity Attributable to Shareholders	1,293,920
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(151,199)
Net Zakatable Equity Attributable to Shareholders	1,142,721
Less:	
Musharaka underlined by unzakatable assets	(51,073)
Investment in Islamic Sukook underlined by unzakatable assets	(176,580)
Ijarah Muntahia Bittamleek	(146,357)
long-term investment in real estate	(31,902)
Properties and equipment	(227,883)
Intangible assets	(99,788)
Investment in Associates	(44,501)
Prepayments	(5,743)
Net deferred tax asset	(204)
Add:	
Shareholders share on Zakatable Assets by Associates	38,339
Borrowing to finance Unzakatable Assets	107,477
Sale of long-term investment in real estate during the year	1,573
Zakah paid in advance by subsidiaries on behalf of the shareholders	2,680
ZAKATABLE AMOUNT	508,759
Zakah Percentage	2.5775%
TOTAL ZAKAH DUE BEFORE ADVANCE PAYMENT OF ZAKAH	13,113
Zakah paid in advance by subsidiaries on behalf of the shareholders	(2,680)
TOTAL ZAKAH DUE	10,433
Number of Shares (thousands)	1,006,000
ZAKAH PER SHARE (US$ CENTS)	1.04

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA BANKING GROUP B.S.C.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' and management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
b. the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

20 February 2013
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	Notes	2012 US$ '000	2011 US$ '000
ASSETS			
Cash and balances with banks	4	**3,927,583**	4,633,280
Receivables	5	**10,462,501**	8,213,057
Mudaraba and Musharaka financing	6	**953,554**	950,935
Investments	7	**2,183,754**	2,090,253
Ijarah Muntahia Bittamleek	8	**719,619**	563,721
Property and equipment	9	**386,496**	313,933
Other assets	10	**421,624**	388,864
TOTAL ASSETS		**19,055,131**	17,154,043
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**3,820,735**	3,560,317
Due to banks		**972,280**	653,462
Other liabilities	11	**689,808**	675,196
Total liabilities		**5,482,823**	4,888,975
EQUITY OF INVESTMENT ACCOUNTHOLDERS	12	**11,604,628**	10,465,918
OWNERS' EQUITY	13		
Share capital		**1,014,475**	869,550
Treasury shares		**(8,475)**	(7,319)
Share premium		**16,352**	16,420
Reserves		**121,253**	104,607
Cumulative changes in fair values		**(3,636)**	(10,910)
Foreign currency translations		**(133,591)**	(112,163)
Retained earnings		**218,222**	167,584
Proposed appropriations		**69,323**	175,359
Equity attributable to parent's shareholders		**1,293,923**	1,203,128
Non-controlling interest		**673,757**	596,022
Total owners' equity		**1,967,680**	1,799,150
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**19,055,131**	17,154,043

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and President and Chief Executive

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2012

	Notes	2012 US$ '000	2011 US$ '000
INCOME			
Net income from jointly financed contracts and investments	14	**1,018,482**	895,682
Return on equity of investment accountholders before Group's share as a Mudarib		**(874,470)**	(796,826)
Group's share as a Mudarib	15	**261,609**	236,159
Return on equity of investment accountholders		**(612,861)**	(560,667)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**405,621**	335,015
Mudarib share for managing off-balance sheet equity of investment accountholders		**4,320**	4,172
Net income from self financed contracts and investments	14	**204,613**	168,220
Other fees and commission income	16	**184,746**	167,702
Other operating income	17	**80,470**	54,878
TOTAL OPERATING INCOME		**879,770**	729,987
Staff expenses		**262,327**	222,450
Depreciation and amortisation	18	**35,299**	29,251
Other operating expenses	19	**160,440**	134,069
TOTAL OPERATING EXPENSES		**458,066**	385,770
NET INCOME FOR THE YEAR BEFORE PROVISIONS AND TAXATION		**421,704**	344,217
Provisions	20	**(99,323)**	(50,812)
NET INCOME BEFORE TAXATION		**322,381**	293,405
Taxation		**(87,139)**	(81,111)
NET INCOME FOR THE YEAR		**235,242**	212,294
Attributable to:			
Equity holders of the parent		**133,028**	118,370
Non-controlling interest		**102,214**	93,924
		235,242	212,294
Basic and diluted earnings per share - US cents	21	**13.21**	11.75

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and President and Chief Executive

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2012

	Notes	2012 US$ '000	2011 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		322,381	293,405
Adjustments for:			
Depreciation and amortisation	18	35,299	29,251
Impairment of intangible assets	10(a)	57	31
Depreciation on Ijarah Muntahia Bittamleek	14.4	100,106	55,812
Unrealised (gain) loss on equity-type instruments at fair value through statement of income	14.3	(330)	459
Gain on sale of property and equipment	17	(17,332)	(6,679)
Gain on sale of investment in real estate	14.3	(2,426)	(1,608)
Gain on sale of equity-type instruments at fair value through equity	14.3	(185)	(8,323)
Gain on sale of equity-type instruments at fair value through statement of income	14.3	(125)	-
Provisions	20	99,323	50,812
Income from associates	14.3	(1,600)	(314)
Operating profit before changes in operating assets and liabilities		535,168	412,846
Net changes in operating assets and liabilities:			
Reserves with central banks		(340,999)	(811,087)
Receivables		(2,330,500)	(206,221)
Mudaraba and Musharaka financing		(12,461)	586,715
Ijarah Muntahia Bittamleek		(256,004)	(179,732)
Other assets		(38,643)	(31,903)
Customer current and other accounts		260,418	654,145
Due to banks		318,818	228,985
Other liabilities		7,924	155,300
Equity of investment accountholders		1,140,192	253,736
Taxation paid		(85,113)	(54,915)
Net cash (used in) from operating activities		(801,200)	1,007,869
INVESTING ACTIVITIES			
Net purchase of investments		(73,573)	(751,465)
Net purchase of property and equipment		(86,681)	(34,260)
Net (purchase) sale of investment in associate		(8,014)	1,626
Net cash used in investing activities		(168,268)	(784,099)
FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent		(30,434)	(39,525)
Net movement in treasury shares		239	73
Net changes in non-controlling interest		(15,799)	(27,267)
Net cash used in financing activities		(45,994)	(66,719)
Foreign currency translation adjustments		(31,234)	(148,761)
NET CHANGES IN CASH AND CASH EQUIVALENTS		(1,046,696)	8,290
Cash and cash equivalents at 1 January		2,996,990	2,988,700
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	1,950,294	2,996,990

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
YEAR ENDED 31 DECEMBER 2012

	Attributable to equity			
				Reserves
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000
Balance at 1 January 2012	869,550	(7,319)	16,420	65,384
Dividends paid	-	-	-	-
Bonus shares issued (note 13)	144,925	-	-	-
Movement in treasury shares	-	(1,156)	(68)	-
Net movement in cumulative change in fair value	-	-	-	-
Net movement in other reserves	-	-	-	-
Foreign currency translation	-	-	-	-
Net income for the year	-	-	-	-
Transfer to statutory reserve	-	-	-	13,303
Proposed dividends	-	-	-	-
Proposed bonus shares	-	-	-	-
Dividends of subsidiaries	-	-	-	-
Effects of acquisition of non-controlling interest	-	-	-	-
Net movement in non-controlling interest	-	-	-	-
Balance at 31 December 2012	**1,014,475**	**(8,475)**	**16,352**	**78,687**
Balance at 1 January 2011	790,500	(6,528)	15,866	53,547
Dividends paid	-	-	-	-
Bonus shares issued (note 13)	79,050	-	-	-
Movement in treasury shares	-	(791)	554	-
Net movement in cumulative change in fair value	-	-	-	-
Net movement in other reserves	-	-	-	-
Foreign currency translation	-	-	-	-
Net income for the year	-	-	-	-
Transfer to statutory reserve	-	-	-	11,837
Proposed dividends	-	-	-	-
Proposed bonus shares	-	-	-	-
Dividends of subsidiaries	-	-	-	-
Effects of acquisition of non-controlling interest	-	-	-	-
Net movement in non-controlling interest	-	-	-	-
Balance at 31 December 2011	**869,550**	**(7,319)**	**16,420**	**65,384**

The attached notes 1 to 29 form part of these consolidated financial statements.

shareholders of the parent							
Other reserves US$ '000	Cumulative changes in fair values US$ '000	Foreign currency translations US$ '000	Retained earnings US$ '000	Proposed appropriations US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
39,223	(10,910)	(112,163)	167,584	175,359	1,203,128	596,022	**1,799,150**
-	-	-	-	(30,434)	(30,434)	-	**(30,434)**
-	-	-	-	(144,925)	-	-	**-**
-	-	-	1,463	-	239	-	**239**
-	7,274	-	-	-	7,274	1,160	**8,434**
3,343	-	-	(1,261)	-	2,082	1,079	**3,161**
-	-	(21,428)	-	-	(21,428)	(9,806)	**(31,234)**
-	-	-	133,028	-	133,028	102,214	**235,242**
-	-	-	(13,303)	-	-	-	**-**
-	-	-	(35,507)	35,507	-	-	**-**
-	-	-	(33,816)	33,816	-	-	**-**
-	-	-	-	-	-	(27,875)	**(27,875)**
-	-	-	34	-	34	(34)	**-**
-	-	-	-	-	-	10,997	**10,997**
42,566	**(3,636)**	**(133,591)**	**218,222**	**69,323**	**1,293,923**	**673,757**	**1,967,680**
43,191	(3,834)	(24,340)	236,750	118,575	1,223,727	592,854	**1,816,581**
-	-	-	-	(39,525)	(39,525)	-	**(39,525)**
-	-	-	-	(79,050)	-	-	**-**
-	-	-	310	-	73	-	**73**
-	(7,076)	-	-	-	(7,076)	(2,244)	**(9,320)**
(3,968)	-	-	(957)	-	(4,925)	(4,012)	**(8,937)**
-	-	(87,823)	-	-	(87,823)	(60,938)	**(148,761)**
-	-	-	118,370	-	118,370	93,924	**212,294**
-	-	-	(11,837)	-	-	-	**-**
-	-	-	(30,434)	30,434	-	-	**-**
-	-	-	(144,925)	144,925	-	-	**-**
-	-	-	-	-	-	(30,675)	**(30,675)**
-	-	-	307	-	307	(307)	**-**
-	-	-	-	-	-	7,420	**7,420**
39,223	**(10,910)**	**(112,163)**	**167,584**	**175,359**	**1,203,128**	**596,022**	**1,799,150**

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

YEAR ENDED 31 DECEMBER 2012

	Cash US$ '000	Sales receivables US$ '000	Mudaraba financing US$ '000	Investment in real estate US$ '000	Investments US$ '000	Others US$ '000	Total US$ '000
Balance at 1 January 2012	17,189	105,361	200,702	35,310	126,381	38,185	**523,128**
Deposits	99,843	600,478	893,299	2,892	64,612	198,296	**1,859,420**
Withdrawals	(59,629)	(632,706)	(889,432)	(4,371)	(41,365)	(168,273)	**(1,795,776)**
Income net of expenses	-	13,769	1,556	445	8,210	2,574	**26,554**
Mudarib's share	-	(2,846)	(2)	(56)	(873)	(543)	**(4,320)**
Foreign exchange translations	-	-	-	-	(3,109)	(7,102)	**(10,211)**
Balance at 31 December 2012	**57,403**	**84,056**	**206,123**	**34,220**	**153,856**	**63,137**	**598,795**
Balance at 1 January 2011	44,920	147,093	46,411	28,255	112,057	76,602	455,338
Deposits	33,043	329,519	294,156	7,329	56,423	309,064	1,029,534
Withdrawals	(60,774)	(381,689)	(141,006)	(653)	(38,161)	(346,322)	(968,605)
Income (loss) net of expenses	-	13,666	1,142	474	(3,329)	2,668	14,621
Mudarib's share	-	(3,228)	(1)	(95)	(81)	(767)	(4,172)
Foreign exchange translations	-	-	-	-	(528)	(3,060)	(3,588)
Balance at 31 December 2011	17,189	105,361	200,702	35,310	126,381	38,185	523,128

The attached notes 1 to 29 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

1 ACTIVITIES

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 consolidated financial statements were approved by the Board of Directors on 20 February 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity-type instruments through statement of income and equity-type instruments through equity that have been measured at fair value. The consolidated financial statements are presented in United States Dollars being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated.

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's owners' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

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

Bank	Ownership for 2012	Ownership for 2011	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2012
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	55.90%	55.90%	1991	Algeria	26
Al Baraka Islamic Bank - Bahrain (AIB)	91.12%	91.12%	1984	Bahrain	101
Al Baraka Bank Tunis (ABT)	78.40%	78.40%	1983	Tunisia	8
Al Baraka Bank Egypt (ABE)	73.68%	73.68%	1980	Egypt	23
Al Baraka Bank Lebanon (ABBL)	98.71%	98.50%	1991	Lebanon	7
Jordan Islamic Bank (JIB)	66.01%	66.01%	1978	Jordan	77
Al Baraka Turk Participation Bank (ATPB)	56.64%	56.64%	1985	Turkey	137
Al Baraka Bank Limited (ABL)	62.15%	61.98%	1989	South Africa	11
Al Baraka Bank Sudan (ABS)	82.08%	82.08%	1984	Sudan	25
Al Baraka Bank Syria (ABBS)	23.00%	23.00%	2009	Syria	9

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

Company/ Bank	Subsidiary held through	Effective Ownership for 2012	Effective Ownership for 2011	Year of incorporation	Country of incorporation
Held directly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	58.90%	58.90%	2010	Pakistan
Itqan Capital (note 3)	AIB	54.67%	-	2007	Saudi Arabia
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	62.15%	61.98%	1991	South Africa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

d. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

e. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

f. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of Murabaha and international commodities stated net of deferred profits and provision for doubtful amount.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any provision for doubtful amount.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

g. Mudaraba and Musharaka financing

Mudaraba and Musharaka financing are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

h. Investments

Investments comprise equity-type instruments at fair value through statement of income, equity-type instruments at fair value through equity, debt-type instruments at amortised cost, investment in real estate and investment in associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investments (continued)

Investment in real estate

Real estate held for rental or for capital appreciation purposes, or both, are classified as investment in real estate. These are initially recognised at cost including transaction cost and subsequently re-measured at fair value with the resulting unrealised gains/losses being recognised in the consolidated statement of changes in owners' equity under cumulative changes in fair values to the extent of the portion of the fair value relating to owners' equity and under equity of investment accountholders in the consolidated statement of financial position to the extent of the portion of the fair value relating to equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or in equity of investment accountholders is recognised in the consolidated statement of income.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Equity-type instruments at fair value through statement of income

This includes instruments held for trading purposes to gain profits from market flactuations in the short term. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income. All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Equity-type instruments at fair value through equity

This includes all instruments that are not covered above. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

i. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

j. Property and equipment

Property and equipment are initially recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 years
Office furniture and equipment	4 -10 years
Vehicles	3 years
Others	4 - 5 years

k. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at Bank or subsidiary level at the end of the financial period at their cash equivalent value.

l. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

m. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

n. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

o. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Provisions

Provisions are recognised when there is a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

q. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

r. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

s. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

t. Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

u. Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

v. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

w. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek

Income net of depreciation is recognised on a time-apportioned basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Fee and commission income
Fee and commission income is recognised when earned.

Other income
Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib
The Group's share of profit as a Mudarib for managing equity of investment accountholders is based on the terms and conditions of the related mudarib agreements.

Mudarib's share of off-balance sheet equity of investment accountholders
The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

x. Return on equity of investment accountholders
Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

y. Joint and self financed
Investments, financing and receivables that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

z. Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

aa. Shari'a Supervisory Board
The Group's business activities are subject to the supervision of a Shari'a Supervisory Board consisting of five members appointed by the general assembly.

bb. Zakah
The responsibility of payment of Zakah is on individual shareholders of the Group, its equity of investment accountholders and other account holders except for few subsidiaries where the responsibility of payment of Zakah is on the individual subsidiary as a single entity. The calculation of Zakah per share is presented as an attachment to the Shari'a Supervisory Board Report.

cc. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

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

In addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

ee. Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a religious or legal right to offset the recognised amounts and there is actual expectation of the Group to settle on a net basis.

ff. Foreign currencies

Foreign currency transactions at the subsidiary level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to income statement at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

gg. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which effects the amounts recognised in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity or debt-type instrument at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Going Concern

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

hh. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

ii. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

i. the right to receive cash flows from the asset have expired;
ii. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
iii. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3 ACQUISITION OF ITQAN CAPITAL

On 1 July 2012, the Group acquired 60% of the voting shares of Itqan Capital through its subsidiary Al Baraka Islamic Bank. Itqan Capital is an unlisted company based in Kingdom of Saudi Arabia, licensed by the Capital Market Authority and specialising in the asset management, principle investment, investment banking, and custodial services. Further Al Baraka Islamic Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of Itqan Capital to the Group. Al Baraka Islamic Bank has authorised the Group to represent it in the shareholders' meetings and to exercise control on Itqan Capital to do any or all acts and deeds and exercise all powers of Al Baraka Islamic Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Itqan Capital as at the date of acquisition were US$ 17,657 thousand and the goodwill arising on acquision was US$ 17,082 thousand. The total cash consideration transferred is US$ 34,739 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3 ACQUISITION OF ITQAN CAPITAL (continued)

The goodwill of US$ 17,082 thousands comprises the value of expected synergies arising from the acquisition, which is not separately recognised.

From the date of acquisition, Itqan Capital has contributed US$ 389 thousands of revenue and a loss of US$ 2,044 thousands to the net profit before tax of the Group. If the acquisition had taken place at the beginning of the year, revenue contributed would have been US$ 817 thousand and a loss of US$ 3,803 thousand to the net profit before tax of the Group.

The Group has elected to measure the non-controlling interest in the Itqan Capital at their proportionate share of the acquiree's identifiable net assets resulting in the non-controlling interest of US$ 7,063 thousand.

4 CASH AND BALANCES WITH BANKS

	2012 US$ '000	2011 US$ '000
Balances with central banks*	**2,876,719**	3,406,311
Balances with other banks	**681,064**	855,435
Cash and cash in transit	**369,800**	371,534
	3,927,583	4,633,280

* Balances with the central banks include mandatory reserves amounting to US$ 1,977,289 thousand (2011: US$ 1,636,290 thousand). These amounts are not available for use in the Group's day-to-day operations.

5 RECEIVABLES

	2012 US$ '000	2011 US$ '000
Sales (Murabaha) receivables (5.1)	**10,297,161**	8,080,444
Ijarah receivables (5.2)	**32,587**	25,450
Salam receivables (5.3)	**106,400**	80,284
Istisna'a receivables (5.4)	**26,353**	26,879
	10,462,501	8,213,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

5.1 Sales (Murabaha) receivables

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
International Commodity Murabaha	63,835	312,232	376,067	140,287	405,963	546,250
Other Murabaha	1,380,402	10,118,986	11,499,388	1,091,049	7,556,527	8,647,576
Gross Sales (Murabaha) receivables	1,444,237	10,431,218	11,875,455	1,231,336	7,962,490	9,193,826
Deferred profits	(166,028)	(1,017,762)	(1,183,790)	(120,786)	(658,930)	(779,716)
	1,278,209	9,413,456	10,691,665	1,110,550	7,303,560	8,414,110
Provisions (note 20)	(42,177)	(352,327)	(394,504)	(40,504)	(293,162)	(333,666)
	1,236,032	9,061,129	10,297,161	1,070,046	7,010,398	8,080,444

	2012 US$ '000	2011 US$ '000
Non-performing	495,745	441,057

The Group considers the promise made in Sales (Murabaha) receivables to the purchase orderer as obligatory.

5.2 Ijarah receivables

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Ijarah receivables	1,081	39,562	40,643	1,374	26,582	27,956
Provisions (note 20)	-	(8,056)	(8,056)	-	(2,506)	(2,506)
	1,081	31,506	32,587	1,374	24,076	25,450

	2012 US$ '000	2011 US$ '000
Non-performing	14,480	10,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

5 RECEIVABLES (continued)

5.3 Salam receivables

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Salam receivables	-	109,084	109,084	-	84,556	84,556
Provisions (note 20)	-	(2,684)	(2,684)	-	(4,272)	(4,272)
	-	106,400	106,400	-	80,284	80,284

	2012 US$ '000	2011 US$ '000
Non-performing	8,415	7,228

5.4 Istisna'a receivables

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Istisna'a receivables	-	26,839	26,839	-	27,423	27,423
Provisions (note 20)	-	(486)	(486)	-	(544)	(544)
	-	26,353	26,353	-	26,879	26,879

	2012 US$ '000	2011 US$ '000
Non-performing	941	665

6 MUDARABA AND MUSHARAKA FINANCING

	2012 US$ '000	2011 US$ '000
Mudaraba financing (6.1)	557,787	606,437
Musharaka financing (6.2)	395,767	344,498
	953,554	950,935

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6.1 Mudaraba financing

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Mudaraba financing	185,031	389,109	574,140	161,519	456,842	618,361
Provisions (note 20)	-	(16,353)	(16,353)	-	(11,924)	(11,924)
	185,031	372,756	557,787	161,519	444,918	606,437

	2012 US$ '000	2011 US$ '000
Non-performing	16,612	17,209

6.2 Musharaka financing

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Musharaka financing	82,442	321,854	404,296	62,365	287,129	349,494
Provisions (note 20)	-	(8,529)	(8,529)	-	(4,996)	(4,996)
	82,442	313,325	395,767	62,365	282,133	344,498

	2012 US$ '000	2011 US$ '000
Non-performing	22,328	18,850

7 INVESTMENTS

	2012 US$ '000	2011 US$ '000
Equity-type instruments at fair value through statement of income (7.1)	4,230	2,983
Equity-type instruments at fair value through equity (7.2)	175,137	224,843
Debt-type instruments at amortised cost (7.3)	1,841,380	1,708,751
	2,020,747	1,936,577
Investment in real estate (7.4)	127,829	128,112
Investment in associates (7.5)	35,178	25,564
	2,183,754	2,090,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

7 INVESTMENTS (continued)

7.1 Equity-type instruments at fair value through statement of income

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted equities	4,230	-	4,230	2,983	-	2,983

7.2 Equity-type instruments at fair value through equity

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equities	5,787	47,969	53,756	4,172	52,060	56,232
Managed funds	17,178	14,351	31,529	8,611	31,409	40,020
	22,965	62,320	85,285	12,783	83,469	96,252
Unquoted investments						
Equities	55,189	23,092	78,281	86,618	30,605	117,223
Managed funds	-	28,380	28,380	-	23,843	23,843
	55,189	51,472	106,661	86,618	54,448	141,066
Provisions (note 20)	(10,524)	(6,285)	(16,809)	(7,410)	(5,065)	(12,475)
	67,630	107,507	175,137	91,991	132,852	224,843

7.3 Debt-type instruments at amortised cost

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Sukook and similar items	312,828	461,337	774,165	283,714	473,487	757,201
	312,828	461,337	774,165	283,714	473,487	757,201
Unquoted investments						
Sukook and similar items	60,938	1,009,654	1,070,592	52,421	901,353	953,774
	60,938	1,009,654	1,070,592	52,421	901,353	953,774
Provisions (note 20)	-	(3,377)	(3,377)	(641)	(1,583)	(2,224)
	373,766	1,467,614	1,841,380	335,494	1,373,257	1,708,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

7.4 Investment in real estate

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
At cost	8,979	115,800	124,779	8,480	115,340	123,820
At fair value	4,547	123,282	127,829	4,312	123,800	128,112

Investment in real estate at fair value at 31 December consist of the following:

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	1,343	46,382	47,725	1,370	47,743	49,113
Buildings	3,204	76,900	80,104	2,942	76,057	78,999
	4,547	123,282	127,829	4,312	123,800	128,112

7.5 Investment in associates

Investments in associates comprise the following:

			2012			
	Ownership % 2012	Country of incorporation	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market Value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.70	Jordan	-	5,660	5,660	4,401
Insurance						
The Islamic Insurance Company	33.20	Jordan	-	7,304	7,304	7,312
Others						
Jordan International Trading Center	28.40	Jordan	-	2,052	2,052	1,618
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,512	5,512	8,086
			-	20,528	20,528	21,417
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	368	368	
REIF Real Estate Income Fund	41.33	Saudi Arabia	8,319	-	8,319	
Insurance						
Aman Takaful Insurance	38.70	Lebanon	967	-	967	
Others						
BEST Lease	28.00	Tunisia	4,996	-	4,996	
			14,282	368	14,650	
			14,282	20,896	35,178	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

7 INVESTMENTS (continued)
7.5 Investment in associates (continued)

	Ownership % 2011	Country of incorporation	2011 Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market Value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.70	Jordan	-	5,769	5,769	4,610
Insurance						
The Islamic Insurance Company	33.20	Jordan	-	7,199	7,199	8,043
Others						
Jordan International Trading Center	28.40	Jordan	-	1,932	1,932	1,156
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,542	5,542	8,086
			-	20,442	20,442	21,895
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	377	377	
Insurance						
Aman Takaful Insurance	38.70	Lebanon	1,028	-	1,028	
Others						
BEST Lease	27.99	Tunisia	3,717	-	3,717	
			4,745	377	5,122	
			4,745	20,819	25,564	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

8 IJARAH MUNTAHIA BITTAMLEEK

	2012			2011		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	-	737,870	737,870	18,166	523,259	541,425
Accumulated depreciation	-	(178,911)	(178,911)	(9,490)	(125,621)	(135,111)
Net book value	-	558,959	558,959	8,676	397,638	406,314
Equipment						
Cost	33,719	334,562	368,281	13,571	331,282	344,853
Accumulated depreciation	(10,705)	(218,756)	(229,461)	(13,385)	(198,858)	(212,243)
Net book value	23,014	115,806	138,820	186	132,424	132,610
Others						
Cost	2,714	30,845	33,559	2,714	32,109	34,823
Accumulated depreciation	(2,714)	(9,005)	(11,719)	(2,714)	(7,312)	(10,026)
Net book value	-	21,840	21,840	-	24,797	24,797
Total						
Cost	36,433	1,103,277	1,139,710	34,451	886,650	921,101
Accumulated depreciation	(13,419)	(406,672)	(420,091)	(25,589)	(331,791)	(357,380)
Net book value	23,014	696,605	719,619	8,862	554,859	563,721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

9 PROPERTY AND EQUIPMENT

	Land and buildings US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Others US$ '000	Total US$ '000
Cost:					
At 1 January 2011	262,100	140,359	11,247	31,217	444,923
Additions	15,253	21,126	1,391	31,317	69,087
Disposals	(363)	(1,819)	(1,443)	(1,072)	(4,697)
Foreign exchange translations	(22,819)	(9,488)	(633)	(4,283)	(37,223)
At 31 December 2011	254,171	150,178	10,562	57,179	472,090
Additions	46,489	30,927	890	52,809	131,115
Disposals	(1,219)	(4,756)	(1,510)	(4,777)	(12,262)
Foreign exchange translations	(11,553)	(6,164)	(1,274)	(4,183)	(23,174)
At 31 December 2012	**287,888**	**170,185**	**8,668**	**101,028**	**567,769**
Depreciation:					
At 1 January 2011	42,504	85,141	6,258	12,168	146,071
Provided during the year (note 18)	9,181	12,375	1,409	2,893	25,858
Relating to disposals	(53)	(1,524)	(1,040)	(874)	(3,491)
Foreign exchange translations	(3,221)	(5,016)	(380)	(1,664)	(10,281)
At 31 December 2011	48,411	90,976	6,247	12,523	158,157
Provided during the year (note 18)	10,395	13,672	1,135	6,248	31,450
Relating to disposals	(515)	(4,436)	(1,221)	(9,541)	(15,713)
Foreign exchange translations	544	7,290	(694)	239	7,379
At 31 December 2012	**58,835**	**107,502**	**5,467**	**9,469**	**181,273**
Net book values:					
At 31 December 2012	**229,053**	**62,683**	**3,201**	**91,559**	**386,496**
At 31 December 2011	205,760	59,202	4,315	44,656	313,933

10 OTHER ASSETS

	2012 US$ '000	2011 US$ '000
Bills receivables	**117,521**	124,827
Goodwill and intangible assets (note 10(a))	**107,784**	86,378
Collateral pending sale	**73,166**	65,388
Good Faith Qard	**11,058**	15,213
Deferred taxation	**31,897**	30,425
Prepayments	**56,531**	40,824
Others	**35,286**	37,717
	433,243	400,772
Provisions (note 20)	**(11,619)**	(11,908)
	421,624	388,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

10(a) Goodwill and intangible assets

	Goodwill 2012 US$ '000	Intangible assets 2012 US$ '000	Total 2012 US$ '000	Goodwill 2011 US$ '000	Intangible assets 2011 US$ '000	Total 2011 US$ '000
At 1 January	76,593	9,785	86,378	83,792	9,978	93,770
Additions	17,082	8,248	25,330	-	4,354	4,354
Amortisation charge for the year	-	(3,849)	(3,849)	-	(3,393)	(3,393)
Impairment loss for the year	-	(57)	(57)	-	(31)	(31)
Foreign exchange translations	110	(128)	(18)	(7,199)	(1,123)	(8,322)
At 31 December	93,785	13,999	107,784	76,593	9,785	86,378

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2012 US$ '000	2011 US$ '000
Al Baraka Turk Participation Bank	28,651	27,013
Al Barak Bank Egypt	2,367	2,371
Jordan Islamic Bank	26,646	26,646
Al Baraka Bank (Pakistan) Limited	19,039	20,563
Itqan Capital	17,082	-
	93,785	76,593

The recoverable amount of the cash-generating units were determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the cash-generating units' past performance and its expectation of market development.

11 OTHER LIABILITIES

	2012 US$ '000	2011 US$ '000
Payables	392,831	295,144
Cash margins	108,336	193,783
Other provisions (note 20) *	18,210	15,303
Current taxation **	47,949	46,565
Deferred taxation **	12,003	9,889
Accrued expenses	59,817	55,247
Charity fund	3,803	2,600
Others	46,859	56,665
	689,808	675,196

* Other provisions mainly comprise of general provisions and specific provisions on commitment and contingent items.

** In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

12 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2012 US$ '000	2011 US$ '000
Equity of investment accountholders	11,488,978	10,358,918
Profit equalisation reserve (note 12.1)	9,444	8,034
Investment risk reserve (note 12.2)	98,429	93,653
Cumulative changes in fair value attributable to equity of investment accountholders - net (12.3)	7,777	5,313
	11,604,628	10,465,918

12.1 Movement in profit equalisation reserve

	2012 US$ '000	2011 US$ '000
Balance at 1 January	8,034	2,667
Amount apportioned from income allocable to equity of investment accountholders	1,842	5,558
Foreign exchange translations	(432)	(191)
Balance at 31 December	9,444	8,034

12.2 Movement in investment risk reserve

	2012 US$ '000	2011 US$ '000
Balance at 1 January	93,653	87,004
Amount appropriated to provision (note 20)	(3,946)	(23,783)
Amount apportioned from income allocable to equity of investment accountholders	4,895	44,712
Foreign exchange translations	3,827	(14,280)
Balance at 31 December	98,429	93,653

12.3 Movement in accumulated changes in fair value attributable to equity of investment accountholders - net

	2012 US$ '000	2011 US$ '000
Balance at 1 January	5,313	9,454
Change in fair values during the year	6,369	(4,960)
Realised gain transferred to consolidated statement of income	(2,039)	(1,382)
Deferred taxation effect	(1,299)	1,903
Transfer (to) from shareholders equity	(567)	298
	7,777	5,313
Attributable to investment in real estate	7,220	7,965
Attributable to equity-type instruments at fair value through equity	557	(2,652)
	7,777	5,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

13 OWNERS' EQUITY

	2012 US$ '000	2011 US$ '000
Share capital		
Authorised 1,500,000,000 shares of US$ 1 each	**1,500,000**	1,500,000

	2012 US$ '000	2011 US$ '000
Issued and fully paid up		
At beginning of the year		
869,550,000 (2011: 790,500,000) shares of US$1 each	**869,550**	790,500
Issued during the year		
144,925,000 Bonus shares (2011: 79,050,000) of US$1 each	**144,925**	79,050
At end of the year		
1,014,475,000 (2011: 869,550,000) shares of US$1 each	**1,014,475**	869,550

The Bank issued bonus shares at one bonus share for each 6 shares (2011: 10) shares held following shareholders' approval and the Board of Directors' resolution in its meeting on 21 March 2012 (2011: 23 February 2011). This was also approved by the Ministry of Industry and Commerce and the CBB.

Treasury shares

	No. thousand	2012 US$ '000	2011 US$ '000
At 1 January	**7,319**	**7,319**	6,528
Purchase of treasury shares	**1,634**	**1,634**	1,446
Sale of treasury shares	**(478)**	**(478)**	(655)
At 31 December	**8,475**	**8,475**	7,319

The market value of the treasury shares is US$ 6,013 thousand (2011: US$ 7,978 thousand) and it represents 0.8% (2011: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

i. Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2012

Names	Nationality/ Incorporation	No. of shares	% holding
Saleh Abdulla Kamel	Saudi	305,463,223	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	249,925,114	24.64%
Altawfeek Company For Investment Funds	Cayman Island	196,036,311	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	69,520,688	6.85%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

13 OWNERS' EQUITY (continued)

Additional information on shareholding pattern (continued)

At 31 December 2011

Names	Nationality/ Incorporation	No. of shares	% holding
Saleh Abdulla Kamel	Saudi	261,825,620	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	214,221,526	24.64%
Altawfeek Company For Investment Funds	Cayman Island	168,031,123	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	59,204,478	6.81%

ii. The Bank has only one class of shares and the holders of these shares have equal voting rights.

iii. Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2012

Categories	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**
Less than 1%	**67,659,095**	**1,124**	**6.67%**
1% up to less than 5%	**125,870,569**	**7**	**12.41%**
5% up to less than 10%	**69,520,688**	**1**	**6.85%**
10% up to less than 20%	**196,036,311**	**1**	**19.32%**
20% up to less than 50%	**555,388,337**	**2**	**54.75%**
	1,014,475,000	**1,135**	**100.00%**

At 31 December 2011

Categories	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	58,525,408	1,106	6.73%
1% up to less than 5%	107,741,845	8	12.39%
5% up to less than 10%	59,204,478	1	6.81%
10% up to less than 20%	168,031,123	1	19.32%
20% up to less than 50%	476,047,146	2	54.75%
	869,550,000	1,118	100.00%

a. **Share premium/Equity transaction cost**

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. **Statutory reserve**

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

c. **Cumulative changes in fair values**
This represents the net unrealised fair value losses relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

d. **Foreign currency translations**
The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

e. **Other reserves**
Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. **Proposed Appropriations**

	2012 US$ '000	2011 US$ '000
Cash dividend 3.5% (2011: 3.5%)	**33,507**	30,434
Bonus shares	**33,816**	144,925
	69,323	175,359

The above proposed appropriations exclude appropriations to the statutory reserve as mentioned above and will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The Bank proposed issuance of bonus shares from the retained earnings at one bonus share for each 30 shares held. This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2011 was approved at the Annual General Meeting on 21 March 2012 and was effected in 2012 following that approval.

g. **Net movement in non-controlling interest**
This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2012 US$ '000	2011 US$ '000
Receivables (note 14.1)	**921,642**	766,213
Mudaraba and Musharaka financing (note 14.2)	**58,846**	62,812
Investments (note 14.3)	**200,881**	193,083
Ijarah Muntahia Bittamleek (note 14.4)	**54,066**	44,762
Others	**4,519**	7,989
	1,239,954	1,074,859
Net income from jointly financed contracts and investments	**1,018,482**	895,682
Income from self financed contracts and investments	**221,472**	179,177
Profit paid on wakala financing	**(16,859)**	(10,957)
Net income from self financed contracts and investments	**204,613**	168,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

14 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

14.1 Receivables

	2012 US$ '000	2011 US$ '000
Sales (Murabaha) receivables	911,598	759,710
Salam receivables	6,370	4,079
Istisna'a receivables	3,674	2,424
	921,642	766,213

14.2 Mudaraba and Musharaka financing

	2012 US$ '000	2011 US$ '000
Mudaraba financing	21,443	32,166
Musharaka financing	37,403	30,646
	58,846	62,812

14.3 Investments

	2012 US$ '000	2011 US$ '000
Equity-type instruments at fair value through equity	9,323	15,446
Debt-type instruments at amortised cost	185,066	166,524
Unrealised gain (loss) on equity-type instruments at fair value through statement of income	330	(459)
Gain on sale of equity-type instruments at fair value through equity	185	8,323
Gain on sale of equity-type instruments at fair value through statement of income	125	-
Rental income	1,826	1,327
Investment from associates	1,600	314
Gain on sale of investment in real estate	2,426	1,608
	200,881	193,083

14.4 Ijarah Muntahia Bittamleek

	2012 US$ '000	2011 US$ '000
Income from Ijarah Muntahia Bittamleek	154,172	100,574
Depreciation on Ijarah Muntahia Bittamleek	(100,106)	(55,812)
	54,066	44,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

15 GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

16 OTHER FEES AND COMMISSION INCOME

	2012 US$ '000	2011 US$ '000
Banking fees and commissions	**81,772**	73,072
Letters of credit	**52,311**	52,978
Guarantees	**44,895**	37,221
Acceptances	**5,768**	4,431
	184,746	167,702

17 OTHER OPERATING INCOME

	2012 US$ '000	2011 US$ '000
Foreign exchange gain	**61,896**	46,872
Gain on sale of property and equipment	**17,332**	6,679
Others	**1,242**	1,327
	80,470	54,878

18 DEPRECIATION AND AMORTISATION

	2012 US$ '000	2011 US$ '000
Property and equipment depreciation (note 9)	**31,450**	25,858
Intangible assets amortisation (note 10(a))	**3,849**	3,393
	35,299	29,251

19 OTHER OPERATING EXPENSES

	2012 US$ '000	2011 US$ '000
General and administration	**89,665**	74,718
Professional and business expenses	**26,873**	20,826
Premises related expenses	**43,902**	38,525
	160,440	134,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

20 PROVISIONS

	Sales (Murabaha) receivables US$ '000 (note 5.1)	Ijarah receivables US$ '000 (note 5.2)
2012		
Provisions at 1 January	**333,666**	**2,506**
Charged during the year	**99,728**	**2,428**
Written back during the year	**(22,223)**	**(1,679)**
	77,505	**749**
	411,171	**3,255**
Written off during the year	**(13,966)**	**(147)**
Amount appropriated from (to) investment risk reserve (note 12.2)	**3,993**	**-**
Foreign exchange translations/others - net	**(6,694)**	**4,948**
Provisions at 31 December	**394,504**	**8,056**
2011		
Provisions at 1 January	325,215	3,402
Charged during the year	64,531	1,279
Written back during the year	(31,900)	(2,110)
	32,631	(831)
	357,846	2,571
Written off during the year	(27,512)	-
Amount appropriated from (to) investment risk reserve (note 12.2)	23,746	-
Foreign exchange translations/others - net	(20,414)	(65)
Provisions at 31 December	333,666	2,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Salam receivables US$ '000 (note 5.3)	Istisna'a receivables US$ '000 (note 5.4)	Mudaraba financing US$ '000 (note 6.1)	Musharaka financing US$ '000 (note 6.2)	Investments US$ '000 (note 7.2 & 7.3)	Other assets US$ '000 (note 10)	Other liabilities US$ '000 (note 11)	Total US$ '000
4,272	**544**	**11,924**	**4,996**	**14,699**	**11,908**	**15,303**	**399,818**
1,231	**355**	**5,888**	**4,387**	**4,026**	**3,763**	**5,583**	**127,389**
(2,592)	**(185)**	**-**	**(386)**	**(376)**	**(314)**	**(311)**	**(28,066)**
(1,361)	**170**	**5,888**	**4,001**	**3,650**	**3,449**	**5,272**	**99,323**
2,911	**714**	**17,812**	**8,997**	**18,349**	**15,357**	**20,575**	**499,141**
(11)	**-**	**-**	**-**	**-**	**(441)**	**(480)**	**(15,045)**
-	**-**	**-**	**(47)**	**-**	**-**	**-**	**3,946**
(216)	**(228)**	**(1,459)**	**(421)**	**1,837**	**(3,297)**	**(1,885)**	**(7,415)**
2,684	**486**	**16,353**	**8,529**	**20,186**	**11,619**	**18,210**	**480,627**

3,619	296	6,053	10,809	10,141	14,271	12,128	385,934
1,502	296	6,242	465	4,783	2,126	11,526	92,750
(816)	(33)	(89)	(5,673)	-	(1,018)	(299)	(41,938)
686	263	6,153	(5,208)	4,783	1,108	11,227	50,812
4,305	559	12,206	5,601	14,924	15,379	23,355	436,746
-	-	-	-	(134)	-	(12)	(27,658)
-	-	-	37	-	-	-	23,783
(33)	(15)	(282)	(642)	(91)	(3,471)	(8,040)	(33,053)
4,272	544	11,924	4,996	14,699	11,908	15,303	399,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

20 PROVISIONS (continued)

These provisions relate to the following geographical areas:

	Sales (Murabaha) receivables US$ '000	Ijarah receivables US$ '000
2012		
Middle East	**221,173**	**1,181**
North Africa	**35,970**	**5,962**
Europe	**110,726**	**-**
Others	**26,635**	**913**
Total	**394,504**	**8,056**
2011		
Middle East	195,009	1,181
North Africa	30,621	173
Europe	84,025	-
Others	24,011	1,152
Total	333,666	2,506

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2012 amounts to US$ 414.2 million (31 December 2011: US$ 298.3 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Salam receivables US$ '000	Istisna'a receivables US$ '000	Mudaraba financing US$ '000	Musharaka financing US$ '000	Investments US$ '000	Other assets US$ '000	Other liabilities US$ '000	Total US$ '000
-	**-**	**16,353**	**276**	**15,962**	**6,120**	**17,170**	**278,235**
2,343	**348**	**-**	**51**	**3,150**	**116**	**1,040**	**48,980**
-	**-**	**-**	**-**	**-**	**907**	**-**	**111,633**
341	**138**	**-**	**8,202**	**1,074**	**4,476**	**-**	**41,779**
2,684	**486**	**16,353**	**8,529**	**20,186**	**11,619**	**18,210**	**480,627**
-	-	11,249	323	11,501	5,693	14,513	239,469
3,581	100	675	53	2,557	195	322	38,277
-	-	-	-	363	535	602	85,525
691	444	-	4,620	278	5,485	(134)	36,547
4,272	544	11,924	4,996	14,699	11,908	15,303	399,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

21 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Net income attributable to the equity shareholders of the parent for the year - US$ '000	133,028	118,370
Weighted average number of shares outstanding at the beginning of the year (in thousands)	1,007,460	864,100
Treasury shares effect (in thousands)	(650)	(1,565)
Bonus shares effect during the year (in thousands)*	-	144,925
Weighted average number of shares outstanding at the end of the year (in thousands)	1,006,810	1,007,460
Earnings per share - US cents	13.21	11.75

*The weighted average number of shares of the previous year has been adjusted on account of the bonus issue made in 2012.

22 CASH AND CASH EQUIVALENTS

	2012 US$ '000	2011 US$ '000
Balances with central banks excluding mandatory reserve	899,430	1,770,021
Balances with other banks	681,064	855,435
Cash and cash in transit	369,800	371,534
	1,950,294	2,996,990

23 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group and Shari'a supervisory board members.

The income and expenses in respect of related parties were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2012 US$ '000	2011 US$ '000
Net income from jointly financed contracts and investments	2,227	612	37	100	2,976	696
Net (loss) income from self financed financing and investments	-	(1,163)	-	-	(1,163)	431
Return on equity of investment accountholders	-	(85)	(124)	(445)	(654)	(657)
Mudarib share for managing off-balance sheet	-	5	14	-	19	-
Other fees and commission income	28	1	-	-	29	112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2012 US$ '000	2011 US$ '000
Short term benefits	4,151	4,943
Long term benefits	748	566

Director's remuneration accrued for the year ended 31 December 2012 amounted to USD 1 million (2011: USD 750 thousand).

The significant balances with related parties at 31 December were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2012 US$ '000	2011 US$ '000
Assets:						
Receivables	51,931	7,809	689	22	60,451	13,772
Mudaraba and Musharaka financing	-	7,777	-	740	8,517	16,554
Investments	6,812	74,142	-	-	80,954	75,380
Ijarah Muntahia Bittamleek	-	-	468	34	502	91
Other assets	500	57	585	185	1,327	684
Liabilities:						
Customer current and other accounts	5,592	2,501	1,241	154	9,488	21,416
Due to banks	98	19,988	-	-	20,086	-
Other Liabilities	2,490	36	-	285	2,811	1,156
Equity of investment accountholders	5,854	5,976	8,624	72	20,526	16,854
Off-balance sheet equity of investment accountholders	10,079	8,785	2,070	-	20,934	14,914

All related party exposures are performing and are free of any provision for possible credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

23 RELATED PARTY TRANSACTIONS (continued)

Details of Directors' and Executive Management direct and indirect interests in the Bank's shares as at the end of the year were:

Name of directors	Position	Nationality	2011 No. of shares	Transaction No. of shares	**2012* No. of shares**
Saleh Abdullah Kamel	Chairman	Saudi	476,047,146	-	555,388,337
Abdulla Ammar Saudi	Vice Chairman	Bahraini	466,198	-	543,898
Abdullah Saleh Kamel	Vice Chairman	Saudi	236,894	-	276,376
Fahad Abdullah AlRajhi	Board Member	Saudi	17,589,634	-	20,521,240
Mohyedin Saleh Kamel	Board Member	Saudi	205,887	-	240,202
Abdul Elah Sabbahi	Board Member	Saudi	158,047	-	184,388
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	256	-	299
Abdulrahman Shehab	Executive Vice President, Head of Operations	Bahraini	56,749	45,000	111,207

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 6 shares held following shareholders' approval at the Annual General Meeting on 21 March 2012.

24 COMMITMENTS AND CONTINGENCIES

	2012 US$ '000	2011 US$ '000
Letters of credit	**1,110,826**	1,273,460
Guarantees	**2,943,529**	2,886,318
Acceptances	**94,014**	142,802
Undrawn Commitments	**601,625**	393,570
Others	**3,600**	264
	4,753,594	4,696,414

25 SEGMENTAL ANALYSIS

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by the Bank's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

Middle East
North Africa
Europe
Others

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in Note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

No business segment are presented as that is not applicable to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Segment assets, liabilities and equity of investment accountholders were as follows:

	2012			2011		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Segment						
Middle East	**8,360,928**	**2,228,323**	**5,316,442**	7,808,985	1,883,492	5,157,413
North Africa	**2,385,801**	**979,449**	**1,060,280**	2,287,272	987,756	959,182
Europe	**6,874,838**	**1,936,161**	**4,250,096**	5,510,986	1,628,441	3,345,056
Others	**1,433,564**	**338,890**	**977,810**	1,546,800	389,286	1,004,267
	19,055,131	**5,482,823**	**11,604,628**	17,154,043	4,888,975	10,465,918

Segment operating income, net operating income and net income were as follows:

	2012			2011		
	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000
Segment						
Middle East	**307,846**	**141,706**	**61,448**	235,097	94,741	40,362
North Africa	**131,470**	**80,717**	**55,139**	129,736	84,627	57,079
Europe	**375,135**	**183,219**	**118,186**	292,644	147,527	103,413
Others	**65,319**	**16,062**	**469**	72,510	17,322	11,440
	879,770	**421,704**	**235,242**	729,987	344,217	212,294

26 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, market risk and other operational risk. Market risk includes currency risk, equity price risk and profit rate risk.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policies and procedures appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The consolidated maturity profile at 31 December 2012 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000
ASSETS			
Cash and balances with banks	1,950,294	-	-
Receivables	1,473,098	1,234,714	1,483,936
Mudaraba and Musharaka financing	441,016	10,658	11,128
Investments	813,016	179,056	187,036
Ijarah Muntahia Bittamleek	11,355	10,404	93,558
Property and equipment	-	-	-
Other assets	81,949	5,833	13,852
Total assets	**4,770,728**	**1,440,665**	**1,789,510**
LIABILITIES			
Customer current and other accounts	3,820,735	-	-
Due to banks	592,170	104,315	44,927
Other liabilities	261,513	35,024	52,304
Total Liabilities	**4,674,418**	**139,339**	**97,231**
Equity of investment accountholders	**2,528,078**	**1,260,004**	**1,457,831**
Total liabilities and equity of investment accountholders	**7,202,496**	**1,399,343**	**1,555,062**
Net liquidity gap	**(2,431,768)**	**41,322**	**234,448**
Cumulative net liquidity gap	**(2,431,768)**	**(2,390,446)**	**(2,155,998)**
Off-balance sheet equity of investment accountholders	153,504	154,632	32,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
-	-	-	-	-	-	1,977,289	3,927,583
1,886,856	2,650,402	1,184,327	482,347	6,145	316	60,360	10,462,501
27,215	99,840	216,256	118,108	10,908	7,183	11,242	953,554
261,056	418,758	62,781	76,608	8,408	-	177,035	2,183,754
32,243	76,088	145,324	154,426	191,655	2,486	2,080	719,619
-	-	-	-	-	-	386,496	386,496
9,650	97,812	18,852	2,007	-	-	191,669	421,624
2,217,020	**3,342,900**	**1,627,540**	**833,496**	**217,116**	**9,985**	**2,806,171**	**19,055,131**
-	-	-	-	-	-	-	3,820,735
227,636	3,232	-	-	-	-	-	972,280
18,384	30,626	20,602	43,283	-	-	228,072	689,808
246,020	**33,858**	**20,602**	**43,283**	**-**	**-**	**228,072**	**5,482,823**
2,740,540	**2,745,716**	**801,290**	**69,560**	**1,609**	**-**	**-**	**11,604,628**
2,986,560	**2,779,574**	**821,892**	**112,843**	**1,609**	**-**	**228,072**	**17,087,451**
(769,540)	**563,326**	**805,648**	**720,653**	**215,507**	**9,985**	**2,578,099**	**1,967,680**
(2,925,538)	**(2,362,212)**	**(1,556,564)**	**(835,911)**	**(620,404)**	**(610,419)**	**1,967,680**	
58,832	5,396	113,404	5,305	-	-	74,867	**598,795**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The consolidated maturity profile at 31 December 2011 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000
ASSETS			
Cash and balances with banks	2,966,957	30,033	-
Receivables	1,316,921	1,011,335	1,157,858
Mudaraba and Musharaka financing	488,552	10,847	12,732
Investments	675,575	278,405	152,990
Ijarah Muntahia Bittamleek	14,674	11,046	73,762
Property and equipment	-	-	-
Other assets	128,279	10,187	9,675
Total assets	5,590,958	1,351,853	1,407,017
LIABILITIES			
Customer current and other accounts	3,560,317	-	-
Due to banks	653,462	-	-
Other liabilities	389,144	40,182	14,717
Total Liabilities	4,602,923	40,182	14,717
Equity of investment accountholders	2,591,356	1,150,649	1,079,525
Total liabilities and equity of investment accountholders	7,194,279	1,190,831	1,094,242
Net liquidity gap	(1,603,321)	161,022	312,775
Cumulative net liquidity gap	(1,603,321)	(1,442,299)	(1,129,524)
Off-balance sheet equity of investment accountholders	214,040	46,962	35,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
-	-	-	-	-	-	1,636,290	4,633,280
1,331,948	2,100,450	1,090,273	198,890	5,149	233	-	8,213,057
34,436	159,301	144,464	91,950	8,653	-	-	950,935
253,097	507,330	108,863	5,613	10,946	-	97,434	2,090,253
31,043	57,695	100,431	130,113	143,263	1,694	-	563,721
-	-	-	-	-	-	313,933	313,933
11,549	69,405	14,446	2,513	-	-	142,810	388,864
1,662,073	2,894,181	1,458,477	429,079	168,011	1,927	2,190,467	17,154,043
-	-	-	-	-	-	-	3,560,317
-	-	-	-	-	-	-	653,462
17,869	83,633	18,103	1,720	-	-	109,828	675,196
17,869	83,633	18,103	1,720	-	-	109,828	4,888,975
2,153,690	2,632,959	789,994	67,745	-	-	-	10,465,918
2,171,559	2,716,592	808,097	69,465	-	-	109,828	15,354,893
(509,486)	177,589	650,380	359,614	168,011	1,927	2,080,639	1,799,150
(1,639,010)	(1,461,421)	(811,041)	(451,427)	(283,416)	(281,489)	1,799,150	
10,048	120,876	-	-	-	-	95,948	523,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

b) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk

Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) receivables

The Group finances these transactions through buying a commodity which represents the object of the Murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha (in case of real estate finance) and other times by a total collateral package securing all the facilities given to the client.

Salam receivables

Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

Istisna'a receivables

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing

The Group enters into Mudaraba contracts by investing in funds managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijarah Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2012 US$ '000	2011 US$ '000
Receivables	**10,462,501**	8,213,057
Mudaraba and Musharaka financing	**953,554**	950,935
Investments	**2,183,754**	2,090,253
Ijarah Muntahia Bittamleek	**719,619**	563,721
Other assets	**152,246**	165,849
Total	**14,471,674**	11,983,815
Commitments and contingencies	**4,753,594**	4,696,414
	19,225,268	16,680,229

Credit quality by type of islamic financing contracts

The table below shows the credit quality by type of islamic financing contracts, based on the Group's credit rating system as of:

	31 December 2012			
Type of Islamic Financing Contracts	**Neither past due nor non performing US$ '000**	**Past due but performing US$ '000**	**non performing islamic financing contracts US$ '000**	**Total US$ '000**
Receivables	**10,280,770**	**67,880**	**519,581**	**10,868,231**
Mudaraba and Musharaka financing	**877,823**	**61,673**	**38,940**	**978,436**
Other assets	**144,593**	**6**	**19,266**	**163,865**
	11,303,186	**129,559**	**577,787**	**12,010,532**

	31 December 2011			
Type of Islamic Financing Contracts	Neither past due nor non performing US$ '000	Past due but performing US$ '000	non performing islamic financing contracts US$ '000	Total US$ '000
Receivables	8,027,555	66,782	459,708	8,554,045
Mudaraba and Musharaka financing	864,875	66,921	36,059	967,855
Other assets	157,743	429	19,585	177,757
	9,050,173	134,132	515,352	9,699,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)
b) Credit risk (continued)
Aging analysis of past due but performing Islamic financing contracts

The following table summarises the aging of past due but performing islamic financing contracts as of:

	31 December 2012			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	39,268	13,052	15,560	67,880
Mudaraba and Musharaka financing	53,486	6,141	2,046	61,673
Other assets	3	1	2	6
	92,757	19,194	17,608	129,559

	31 December 2011			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	36,907	15,366	14,509	66,782
Mudaraba and Musharaka financing	62,227	4,030	664	66,921
Other assets	2	158	269	429
	99,136	19,554	15,442	134,132

Credit Risk Mitigation

All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and evaluation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. However, they are not eligible collateral for capital adequacy calculation. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenor of the commercial papers are generally short in nature (maximum of 270 days), they are not accepted as collateral for long–term facilities (i.e. the financing tenor should not exceed the commercial papers maturity tenor). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1. Hamish Jiddiyyah (Good faith deposit): Subsidiaries take this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the subsidiary has recourse to the deposit.
2. Third party guarantee: The subsidiary should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable of investment grade rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

3. Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defence for the subsidiary if the purchaser or lessee breaches the contract.
4. Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any of any kind of encumbrance.

   Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledgor). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.

   Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

   Rated and unrated senior sukook issued by first class financial institutions or by GCC sovereigns.

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, countries, governments and financial Institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating. A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to countries and single obligors. Single obligors, in turn are categorised as financial institutions, corporates, governments and retail. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish).

c) Concentration risk

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

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

c) Concentration risk (continued)

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2012			2011		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Manufacturing	3,107,675	129,759	157,132	2,242,288	99,720	152,982
Mining and quarrying	110,693	1,941	26,052	117,684	280	20,278
Agriculture	56,303	1,650	13,390	73,676	1,801	15,406
Construction and real estate	2,444,318	43,443	23,905	2,120,031	20,569	32,251
Financial	2,229,134	328,450	1,420,901	2,435,541	235,401	1,351,097
Trade	1,749,522	162,217	194,686	1,706,910	92,767	178,936
Personal and consumer finance	2,426,407	2,773,755	8,531,145	2,186,159	2,714,117	7,510,713
Government	4,565,030	29,244	64,375	4,212,567	58,457	207,469
Other Services	2,366,049	2,012,364	1,173,042	2,059,187	1,665,863	996,786
	19,055,131	5,482,823	11,604,628	17,154,043	4,888,975	10,465,918

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented the management of the Group have set certain limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

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 on equity of investment accountholders. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

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 investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The Group has total equity portfolio of US$ 179,367 thousand (2011: US$ 227,826 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 175,137 thousand (2011: US$ 224,843 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 4,230 thousand (2011: US$ 2,983 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

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.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2012		
Currency	**Operational equivalent Long (short) US$ '000**	**Strategic equivalent Long (short) US$ '000**	**Total equivalent Long (short) US$ '000**
Turkish Lira	**(137,396)**	**390,044**	**252,648**
Jordanian Dinar	**34,044**	**220,726**	**254,770**
Egyptian Pound	**(33,434)**	**123,726**	**90,292**
Sudanese Pound	**882**	**18,814**	**19,696**
Algerian Dinar	**-**	**139,803**	**139,803**
Lebanese Pound	**165**	**17,825**	**17,990**
Pound Sterling	**(2,232)**	**-**	**(2,232)**
Tunisian Dinar	**117**	**-**	**117**
Euro	**29,310**	**-**	**29,310**
South African Rand	**-**	**26,445**	**26,445**
Pakistani Rupees	**2,517**	**41,181**	**43,698**
Syrian Pound	**(22,665)**	**8,488**	**(14,177)**
Others	**7,877**	**-**	**7,877**

	2011		
Currency	Operational equivalent Long (short) US$ '000	Strategic equivalent Long (short) US$ '000	Total equivalent Long (short) US$ '000
Turkish Lira	(2,023)	304,458	302,435
Jordanian Dinar	7,316	197,871	205,187
Egyptian Pound	(11,820)	107,336	95,516
Sudanese Pound	(13,198)	39,728	26,530
Algerian Dinar	-	135,674	135,674
Lebanese Pound	(7,540)	16,835	9,295
Pound Sterling	2,159	-	2,159
Tunisian Dinar	(3,402)	-	(3,402)
Euro	3,820	-	3,820
South African Rand	-	26,741	26,741
Pakistani Rupees	18,941	39,881	58,822
Syrian Pound	(32,691)	10,266	(22,425)
Others	(6,680)	-	(6,680)

The strategic currency risk represents the amount of equity of the subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

d) Market Risk (continued)

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgement of the management of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity.

At 31 December 2012

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	52,937	(10%)	5,882	10%	(4,812)
	Total owners' equity	110,296	(10%)	27,789	10%	(22,736)
Egyptian Pound	Net Income	26,203	(15%)	4,624	20%	(4,367)
	Total owners' equity	44,195	(15%)	29,633	20%	(27,987)
Turkish Lira	Net Income	118,186	(20%)	29,546	20%	(19,698)
	Total owners' equity	298,537	(20%)	172,145	20%	(114,763)
Sudanese Pound	Net Income	3,400	(15%)	600	25%	(680)
	Total owners' equity	4,109	(15%)	4,045	25%	(4,585)
S.African Rand	Net Income	2,769	(10%)	308	10%	(252)
	Total owners' equity	16,106	(10%)	4,728	10%	(3,868)
Syrian Pound	Net Income	6,656	(10%)	740	25%	(1,331)
	Total owners' equity	28,415	(10%)	4,100	25%	(7,380)
Pakistani Rupees	Net Income	(5,698)	(10%)	(633)	15%	743
	Total owners' equity	10,210	(10%)	5,710	15%	(6,703)

At 31 December 2011

Currency	Particular	Exposures in US$ '000	Variance %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	51,161	10%	(4,651)
	Total owners' equity	107,039	10%	(22,065)
Egyptian Pound	Net Income	16,952	15%	(2,211)
	Total owners' equity	38,341	15%	(19,001)
Turkish Lira	Net Income	103,413	20%	(17,235)
	Total owners' equity	233,030	20%	(89,581)
Sudanese Pound	Net Income	6,604	10%	(600)
	Total owners' equity	8,676	10%	(4,400)
S. African Rand	Net Income	2,523	15%	(329)
	Total owners' equity	16,402	15%	(5,627)
Syrian Pound	Net Income	3,643	20%	(607)
	Total owners' equity	34,369	20%	(7,439)
Pakistani Rupees	Net Income	2,313	15%	(302)
	Total owners' equity	21,816	15%	(8,047)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

e) 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.

Operational Risk Management Framework

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 and (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 Operational Risk framework will be subject to periodic Internal Audit.

The Group categorizes operational risk loss events into the following categories:

Infrastructure Risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group and the subsidiaries might be disrupted and severe operational risks could occur and an extreme possibility is the threat of a subsidiary's existence.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

Information Technology Risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access by third parties or employees, etc.

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.
2. Outdated process descriptions in cases where "reality" already strongly differs from the guidelines laid down in the past.
3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

26 RISK MANAGEMENT (continued)

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Minister of Industry and Commerce.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 106,661 thousand (2011: US$ 141,066 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statement.

28 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 2.7 million (2011: US$ 4.1 million). This amount has been taken to charity.

29 COMPARATIVE FIGURES

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

1 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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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 2012		31 December 2011	
	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	1,006,000	-	862,231	-
Disclosed reserves				
Legal / statutory reserves	78,687	-	65,384	-
Share premium	16,352	-	16,420	-
Others	(21,702)	-	102,102	-
Retained profit brought forward	217,892	-	167,584	-
Unrealized gains arising from fair valuing equities (45% only)	149	-	-	-
Non-controlling interest in consolidated subsidiaries	673,757	-	596,022	-
Less:				
Goodwill	93,785	-	76,593	-
Unrealized gross losses arising from fair valuing equity securities	47,840	-	46,515	-
Tier 1 Capital before PCD deductions	1,829,510	-	1,686,635	-
Tier 2 Capital Components				
Asset revaluation reserves - Property, plant and equipment (45% only)	-	118	-	-
Unrealized gains arising from fair valuing equities (45% only)	-	19,773	-	16,165
Profit equalization reserve	-	9,444	-	8,034
Investment risk reserve	-	98,429	-	93,653
Tier 2 Capital before PCD deductions	-	127,646	-	117,852
Total Available Capital	-	1,957,274	-	1,804,487
Deduction				
Investment in insurance entity greater than or equal to 20%	(4,136)	(4,136)	(4,114)	(4,114)
Net Available Capital	1,825,374	123,629	1,682,521	113,738
TOTAL ELIGIBLE CAPITAL		1,949,003		1,796,259

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 2012		31 December 2011	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	8,227,452	987,294	6,561,714	787,406
Market Risk	915,231	109,828	867,070	104,048
Operational Risk	1,411,561	169,387	1,264,498	151,740
	10,554,244	1,266,509	8,693,282	1,043,194

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

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 2012		31 December 2011	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Islamic financing contracts				
Receivables	**3,966,561**	**475,987**	5,950,637	714,076
Mudaraba and Musharaka financing	**519,265**	**62,312**	280,206	33,625
Ijarah Muntahia Bittamleek	**248,911**	**29,869**	279,458	33,535
	4,734,737	**568,168**	6,510,301	781,236

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 2012	31 December 2011
Total capital ratio	**18.47%**	19.69%
Tier 1 capital ratio	**17.30%**	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 2012		31 December 2011	
	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio	Total capital ratio
Head Office	**31%**	**31%**	42%	42%
Banque Al Baraka D'Algerie	**39%**	**40%**	29%	30%
Al Baraka Islamic Bank *	**18%**	**18%**	17%	17%
Al Baraka Bank Tunis	**23%**	**23%**	25%	25%
Al Baraka Bank Egypt	**19%**	**19%**	21%	21%
Al Baraka Bank Lebanon	**20%**	**20%**	29%	30%
Jordan Islamic Bank	**18%**	**18%**	21%	21%
Al Baraka Turk Participation Bank	**14%**	**14%**	16%	16%
Al Baraka Bank Limited	**24%**	**25%**	28%	28%
Al Baraka Bank Sudan	**11%**	**11%**	17%	19%
Al Baraka Bank Syria	**14%**	**15%**	32%	32%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 30% (2011: 34%) and total capital ratio of 30% (2011:34%).

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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 2012 % holding**	31 December 2011 % holding
Bahraini	**26.01**	25.91
Saudi	**42.71**	44.96
Cayman Islands	**19.33**	19.33
Emirati	**8.52**	6.24
Kuwaiti	**1.09**	1.13
Others	**2.34**	2.43

2 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.

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

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 2012	31 Dece mber 2011
Short term assets to short term liabilities	**78%**	86%
Liquid assets to total assets	**25%**	32%

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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 2012			
	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
Funded Exposure				
Receivables	4,730,290	4,384,945	5,732,211	5,304,102
Mudaraba and Musharaka financing	473,187	428,714	480,367	463,810
Investments	924,761	776,455	1,258,993	1,177,784
Ijarah Muntahia Bittamleek	322,250	295,314	397,369	367,366
Other assets	78,091	111,120	74,155	93,592
Unfunded Exposure				
Commitments and contingencies	4,753,594	4,953,716	-	-
	11,282,173	10,950,264	7,943,095	7,406,653

	31 December 2011			
	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
Funded Exposure				
Receivables	3,866,518	3,525,948	4,346,539	4,684,001
Mudaraba and Musharaka financing	457,105	392,581	493,830	527,093
Investments	964,652	926,974	1,125,601	1,080,010
Ijarah Muntahia Bittamleek	243,152	208,661	320,569	295,986
Other assets	83,153	97,727	82,696	81,164
Unfunded Exposure				
Commitments and contingencies	4,696,414	4,567,709	-	-
	10,310,994	9,719,600	6,369,235	6,668,254

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 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 2012, broken down into significant areas by major types of credit exposure:

	Self financed			
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
Receivables	1,430,948	490,337	2,670,772	138,233
Mudaraba and Musharaka financing	297,692	46,175	67,126	62,194
Investments	469,117	17,647	293,100	144,897
Ijarah Muntahia Bittamleek	172,601	119,509	23,141	6,999
Other Assets	42,439	14,434	7,278	13,940
	2,412,797	688,102	3,061,417	366,263

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			
	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
Mudaraba and Musharaka financing	315,068	39,233	54,114	48,690
Investments	458,654	12,448	277,049	216,501
Ijarah Muntahia Bittamleek	141,933	84,286	10,026	6,907
Other Assets	39,292	25,982	1,991	15,888
	2,071,607	668,279	2,444,158	430,536

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

Financed by IAH			
Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
2,653,778	**425,964**	**2,336,523**	**315,946**
196,387	**54,330**	**-**	**229,650**
1,063,940	**4,596**	**-**	**190,457**
292,207	**83,771**	**195**	**21,196**
33,717	**10,563**	**11,171**	**18,704**
4,240,029	**579,224**	**2,347,889**	**775,953**

Financed by IAH			
Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
1,968,093	368,664	1,686,894	322,888
257,138	34,008	-	202,684
909,558	-	-	216,043
239,587	56,751	1,688	22,543
37,991	17,841	2,885	23,979
3,412,367	477,264	1,691,467	788,137

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 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 2012:

	Funded					
	Receivables		Mudaraba and Musharaka financing		Investments	
	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000
Claims on sovereigns	393,242	629,787	-	-	715,739	1,032,046
Claims on multi-lateral development banks	3,850	14,603	-	-	-	-
Claims on investment firms	-	-	-	-	-	-
Claims on banks	167,099	332,314	16,948	67,383	37,907	34,416
Claims on corporates	3,547,314	2,939,254	5,319	35,818	-	11,621
Claims on retail	588,728	1,686,320	-	222	-	-
Past dues receivables	30,057	129,933	-	10,885	-	-
Equity investment	-	-	327,826	71,291	97,700	78,022
Investment in Funds	-	-	-	-	31,819	19,860
Specialized Lending	-	-	123,094	294,768	-	-
Other assets	-	-	-	-	41,596	83,028
Total	4,730,290	5,732,211	473,187	480,367	924,761	1,258,993

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

Exposures				Unfunded Exposures		Funded and Unfunded Exposures	
Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000
-	23,403	-	-	57,644	-	1,166,625	1,685,236
-	-	-	-	-	-	3,850	14,603
-	-	-	-	-	-	-	-
-	43,483	-	-	42,311	-	264,265	477,596
34,107	167,926	-	-	4,443,432	-	8,030,172	3,154,619
288,143	157,759	-	-	210,207	-	1,087,078	1,844,301
-	4,798	-	-	-	-	30,057	145,616
-	-	-	-	-	-	425,526	149,313
-	-	-	-	-	-	31,819	19,860
-	-	-	-	-	-	123,094	294,768
-	-	78,091	74,155	-	-	119,687	157,183
322,250	397,369	78,091	74,155	4,753,594	-	11,282,173	7,943,095

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 RISK MANAGEMENT (continued)

b) Credit risk (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 2011:

	Funded					
	Receivables		Mudaraba and Musharaka financing		Investments	
	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000
Claims on sovereigns	65,712	53,889	-	-	628,669	758,370
Claims on multi-lateral development banks	2,642	16,820	-	-	-	-
Claims on investment firms	177	-	-	-	-	-
Claims on banks	240,408	425,197	238,383	51,372	122,836	197,958
Claims on corporates	2,847,567	2,317,003	12,153	8,538	-	10,481
Claims on retail	690,129	1,444,125	-	-	-	-
Past dues receivables	19,883	89,505	-	-	-	520
Equity investment	-	-	121,755	73,824	101,764	49,611
Investment in Funds	-	-	-	-	66,618	25,314
Specialized Lending	-	-	84,814	360,096	-	-
Other assets	-	-	-	-	44,765	83,347
Total	3,866,518	4,346,539	457,105	493,830	964,652	1,125,601

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

Exposures				Unfunded Exposures		Funded and Unfunded Exposures	
Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000	Self US$ '000	IAH US$ '000
-	18,971	-	-	58,743	-	753,124	831,230
-	-	-	-	-	-	2,642	16,820
-	-	-	-	-	-	177	-
-	35,437	-	-	196,871	-	798,498	709,964
60,095	84,076	-	-	4,164,099	-	7,083,914	2,420,098
182,897	181,816	-	-	276,701	-	1,149,727	1,625,941
160	269	-	-	-	-	20,043	90,294
-	-	-	-	-	-	223,519	123,435
-	-	-	-	-	-	66,618	25,314
-	-	-	-	-	-	84,814	360,096
-	-	83,153	82,696	-	-	127,918	166,043
243,152	320,569	83,153	82,696	4,696,414	-	10,310,994	6,369,235

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 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 that qualifies for the deduction requirement as per CBB's guidelines.

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:

					Aging of non performing Islamic financing contracts		
2012	**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	**1,040,093**	**1,039,738**	**355**	**-**	**-**	**-**	**-**
Bank	**1,453,394**	**1,450,605**	**-**	**2,789**	**2,228**	**-**	**561**
Investment Firms	**192,705**	**155,708**	**-**	**36,997**	**-**	**155**	**36,842**
Corporates	**5,898,080**	**5,525,352**	**37,878**	**334,850**	**110,688**	**101,888**	**122,274**
Retail	**3,426,260**	**3,131,783**	**91,326**	**203,151**	**61,671**	**98,987**	**42,493**
	12,010,532	**11,303,186**	**129,559**	**577,787**	**174,587**	**201,030**	**202,170**
2011							
Sovereign	160,971	158,617	2,354	-	-	-	-
Bank	822,866	822,305	-	561	-	-	561
Investment Firms	191,647	146,489	-	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
	9,699,657	9,050,173	134,132	515,352	136,787	210,287	168,278

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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:

	Specific provisions						
2012	**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 (to) from IAH during the year US$ '000**	**Foreign exchange translations/ others - net US$ '000**	**Balance at the end of the year US$ '000**
Bank	**2,650**	**1,777**	**-**	**-**	**-**	**(1,464)**	**2,963**
Investment Firms	**7,994**	**2,683**	**-**	**-**	**-**	**(196)**	**10,481**
Corporates	**270,529**	**96,852**	**(24,246)**	**(13,438)**	**(2,601)**	**1,700**	**328,796**
Retail	**103,342**	**20,494**	**(3,509)**	**(1,127)**	**6,547**	**(5,570)**	**120,177**
	384,515	**121,806**	**(27,755)**	**(14,565)**	**3,946**	**(5,530)**	**462,417**
2011							
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

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 2012 US$ '000	31 December 2011 US$ '000
Opening Balance	**15,303**	12,128
Charges during the year	**5,583**	11,526
Write-Back during the year	**(311)**	(299)
Write-offs during the year	**(480)**	(12)
Foreign exchange translations/ others	**(1,885)**	(8,040)
Balance at the end of the year	**18,210**	15,303

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

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 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 2012			31 December 2011		
	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	329,049	261,065	17,170	315,184	224,956	14,513
North Africa	81,600	47,940	1,040	65,091	37,955	322
Europe	124,923	111,633	-	91,109	84,923	602
Others	171,774	41,779	-	178,100	36,681	(134)
	707,346	462,417	18,210	649,484	384,515	15,303

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

	31 December 2012 US$ '000	31 December 2011 US$ '000
Renegotiated Islamic financing contracts	86,435	76,249

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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 2012 US$ '000	31 December 2011 US$ '000
Gross positive fair value of contracts	**14,319,428**	11,817,966
Netting Benefits	**-**	-
Netted Current Credit Exposure	**14,319,428**	11,817,966
Collateral held:		
Cash	**518,222**	532,164
Others	**4,235,862**	3,174,853
Real Estate	**10,327,654**	8,125,478
	15,081,738	11,832,495

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

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 2012		31 December 2011	
	Equity position risk US$ '000	Foreign exchange risk US$ '000	Equity position risk US$ '000	Foreign exchange risk US$ '000
Risk weighted exposure (RWE)	**-**	**915,231**	888	866,182
Capital requirements (12%)	**-**	**109,828**	107	103,942
Maximum value of RWE	**1,750**	**1,047,826**	6,988	1,054,250
Minimum value of RWE	**-**	**915,231**	888	866,182

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 individualsubsidiary 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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

2 RISK MANAGEMENT (continued)

c) Market risk (continued)

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.

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:

2012	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	1,841,380	1,593,497	774,165	1,067,215	13,788
Equity Investment	162,273	179,755	78,514	83,759	44,834
Managed funds	52,272	50,241	31,529	20,743	6,528
	2,055,925	1,823,493	884,208	1,171,717	65,149
2011					
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

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 2012 US$ '000	31 December 2011 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	310	8,323
Total unrealized gains recognised in the consolidated statement of financial positions but not through consolidated statement of income	(3,899)	(10,593)
Unrealised gross losses included in Tier 1 Capital	(47,840)	(46,515)
Unrealised gains included in Tier 1 Capital (45% only)	149	-
Unrealised gains included in Tier 2 Capital (45% only)	19,773	16,165

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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		
	2012 US$ '000	2011 US$ '000	2010 US$ '000	2009 US$ '000
Total Gross Income	**879,770**	729,987	648,741	633,513

	2012	2011
Indicators of operational risk		
Average Gross income (US$ '000)	**752,833**	670,747
Multiplier	12.5	12.5
	9,410,408	8,384,338
Eligible Portion for the purpose of the calculation	15%	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,411,561**	1,257,651

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

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

3 CORPORATE GOVERNANCE

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.

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.

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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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 2012 US$ '000	31 December 2011 US$ '000
Directors remuneration	**1,000**	750
Executive Management		
Salary and other remuneration, including meeting allowance	**3,177**	2,984
Fees	**82**	80
Bonuses	**777**	1,746
Benefits-in-kind	**863**	699
	4,899	5,509
Shari'a Committee Members fee and remuneration	**367**	258
	6,266	6,517

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 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 2012 financial year. The AGM has approved the reappointment on 21 March 2012 and the related regulatory approval were taken in due course.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

4 EQUITY OF INVESTMENT ACCOUNT-HOLDERS 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 2012 US$ '000	31 December 2011 US$ '000
IAH - Banks	**214,622**	287,751
IAH - Non-banks	**11,274,356**	10,071,167
Profit equalisation reserve (PER) - Banks	**180**	228
Profit equalisation reserve (PER) - Non-banks	**9,264**	7,806
Investment risk reserve (IRR) - Banks	**1,873**	2,654
Investment risk reserve (IRR) - Non-banks	**96,556**	90,999
Cumulative changes in fair value attributable to IAH	**7,777**	5,313
	11,604,628	10,465,918

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

	2012 %	2011 %
Return on average IAH Equity	**5.6**	5.4
Return on average IAH Assets	**7.9**	7.7

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

	31 December 2012 %	31 December 2011 %
IAH - Banks	**2**	3
IAH - Non-banks	**98**	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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

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:

	2012 %	2011 %
Receivables	87	84
Mudaraba and Musharaka financing	7	10
Ijarah Muntahia Bittamleek	6	6

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:

	2012 %	2011 %
Sovereign	2	2
Bank	9	10
Investment Firms	1	1
Corporates	15	16
Retail	73	71

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 2012			31 December 2011		
	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	3,374,610	141,153	3,515,763	3,434,903	555,744	3,990,647
Receivables	5,195,684	536,527	5,732,211	4,883,977	(537,438)	4,346,539
Mudaraba and Musharaka financing	461,489	18,878	480,367	538,055	(44,225)	493,830
Investments	1,117,426	141,567	1,258,993	1,094,995	30,609	1,125,604
Ijarah Muntahia Bittamleek	352,412	44,957	397,369	287,340	33,228	320,568
Other assets	213,808	6,117	219,925	205,278	(16,548)	188,730
	10,715,429	889,199	11,604,628	10,444,548	21,370	10,465,918

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

4 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 2012			31 December 2011		
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	573,041	171,912	20,629	308,069	92,421	11,091
Claims on PSEs	3,412	1,023	123	3,284	985	118
Claims on Banks	67,781	20,334	2,440	269,538	80,861	9,703
Claims on Corporates	5,206,785	1,562,035	187,444	3,727,770	1,118,331	134,200
Regulatory Retail Portfolio	762,486	228,746	27,450	672,041	201,612	24,193
Mortgage	780,779	234,234	28,108	587,385	176,216	21,146
Past due facilities	157,308	47,192	5,663	120,301	36,090	4,331
Investment in securities	240,636	72,191	8,663	197,142	59,143	7,097
Holding of Real Estates	187,462	56,239	6,749	186,584	55,975	6,717
Other Assets	659,690	197,907	23,749	525,475	157,643	18,917
	8,639,380	2,591,813	311,018	6,597,589	1,979,277	237,513

5 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.

ADDITIONAL PUBLIC DISCLOSURES
31 DECEMBER 2012

Table – 28. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))
The following table summarises the percentage of financing for each type of Shari'a-compliant contract to total financing as of:

	31 December 2012 %	31 December 2011 %
Receivables	29	34
Mudaraba and Musharaka financing	71	66

Table – 29. Off-balance sheet equity of 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 2012 %	31 December 2011 %
Sovereign	1	2
Multinational Development Banks	5	-
Bank	38	47
Corporates	14	15
Retail	42	36

Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))
The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's 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 off-balance sheet equity of investment accountholders' returns are analysed at the local level.

ALBARAKA GLOBAL NETWORK

Al Baraka Türk Participation Bank

ADDRESS:	Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi, No. 6 Ümraniye, Istanbul, Turkey	TEL: FAX:	+90 216 666 01 01 +90 216 666 16 00 albarakaturk.com.tr

Jordan Islamic Bank

ADDRESS:	P.O. Box 926225 Amman 11190 Jordan	TEL: FAX:	+9626 567 7377 +9626 566 6326 jordanislamicbank.com

Al Baraka Bank Egypt

ADDRESS:	60, Mohie Elddin Abu Elezz Street P.O. Box 455 Dokki, Giza, Egypt	TEL: FAX:	+2023 748 1222 +2023 761 1436/7 albaraka-bank.com.eg

Banque Al Baraka D'Algerie S.P.A.

ADDRESS:	Hai Bouteldja Houidef, Villa No. 1 Rocade Sud, Ben Aknoun Algiers, Algeria	TEL: FAX:	+213 21 91 64 50 to 55 +213 21 91 64 58 albaraka-bank.com

Al Baraka Islamic Bank B.S.C. - Bahrain

ADDRESS:	Al Baraka Tower, Building No. 238 Road No. 1704, Block No. 317 Diplomatic Area, P.O. Box 1882 Manama, Kingdom of Bahrain	TEL: FAX:	+973 17 535 300 +973 17 533 993 albaraka.bh

e-network.albaraka.com

Al Baraka Bank (Pakistan) Limited

ADDRESS:	162, Bangalore Town Main Shahrah-e-Faisal Karachi, Pakistan	TEL: FAX:	+92 21 34315851 +92 21 34546465 albaraka.com.pk

Al Baraka Bank Tunisia

ADDRESS:	88, Avenue Hedi Chaker 1002 Tunis, Tunisia	TEL: FAX:	+21671 790000 +21671 780235 albarakabank.com.tn

Al Baraka Bank Limited - South Africa

ADDRESS:	2 Kinsmead Boulevard Kingsmead Office Park Stalwart Simelane Street Durban 4000, South Africa	TEL: FAX:	+2731 364 9000 +2731 364 9001 albaraka.co.za

Al Baraka Bank Sudan

ADDRESS:	Al Baraka Tower P.O. Box 3583, Qasr ST Khartoum, Sudan	TEL: FAX:	+249187 112 000 +249183 788 585 albaraka.com.sd

Al Baraka Bank Lebanon S.A.L.

ADDRESS:	Center Verdan 2000, 2nd Floor Rashid Karameh Street Verdan, Beirut Lebanon	TEL: FAX:	+9611 808008 +9611 806499 al-baraka.com

e-network.albaraka.com

ALBARAKA GLOBAL NETWORK (continued)

Al Baraka Bank Syria s.a.

ADDRESS: Alshahbander Street
P.O. Box 100
Damascus
Syria

TEL: +963 11 443 78 20
FAX: +963 11 443 78 10
albarakasyria.com

Al Baraka Banking Group, Representative Office - Indonesia

ADDRESS: Ravindo Building, 10th Floor
Jalan Kebon Sirih, No. 75
Jakarta Pusat 10340
Indonesia

TEL: +62 21 316 1345
FAX: +62 21 316 1074
albaraka.com

Al Baraka Banking Group, Representative Office - Libya

ADDRESS: Tripoli Tower, Tower 1
14th Floor, Office No. 144
P.O. Box 93271
Tripoli, Libya

TEL: +218 (21) 336 2310
+218 (21) 336 2311
FAX: +218 (21) 336 2312
albaraka.com

Itqan Capital, Saudi Arabia

ADDRESS: Al Shatei Center, Al Malik Road
P.O. Box 8021, Jeddah 21482
Kingdom of Saudi Arabia

TEL: +966 2 234 700
FAX: +966 2 234 7222
itqancapital.com

e-network.albaraka.com

Al Baraka Banking Group (B.S.C.)
Al Baraka Tower, Building No. 238
Road No. 1704, Block No. 317, Diplomatic Area
P.O. Box 1882, Manama
Kingdom of Bahrain
Tel: +973 17541122
Fax: +973 17536533
C.R.: 48915

albaraka.com
(Licensed as an Islamic Wholesale Bank by CBB)

Shares Registrar:
Fakhro Karvy Computershare W.L.L.
Office 74, 7th Floor, AlZamil Tower
PO Box 514, Manama
Kingdom of Bahrain
Tel: +973-17215080
Fax: +973-17212055

bahrain.helpdesk@karvy.com

Investors' Relations:
Mr. Ahmed AbdulGhaffar
Vice President - Investors Relations
Al Baraka Banking Group
Kingdom of Bahrain
Tel: +973 17520701 / 17541122
Fax: +973 17910911 / 17531074

aghaffar@albaraka.com